Falkland Islands Holdings plc
Annual Report 2013

Falkland Islands Holdings

Contents

Financial Highlights

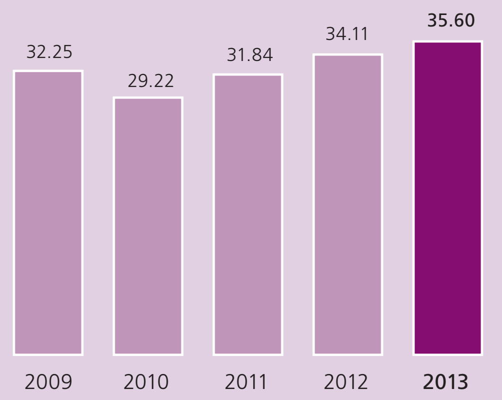
FOR THE YEAR ENDED 31 MARCH 2013

	2013 £m	2012 £m	*Change %*
Turnover from continuing operations	**35.60**	34.11	*4.4*
Profit before tax	**2.80**	2.84	*(1.4)*
Underlying profit before tax*	**3.29**	3.23	*1.9*
Diluted earnings per share before goodwill amortisation and non-trading items	**21.3p**	26.2p	*(18.7)*
Dividend per share	**11.5p**	11.0p	*4.5*
Cash flow from operations	**3.47**	4.61	*(24.7)*
Net asset value per share	**276p**	317p	*(12.9)*

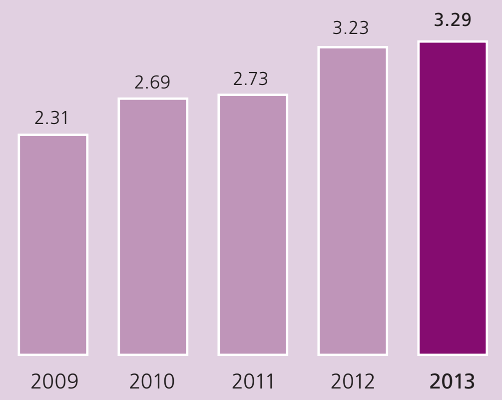
*Defined as profit before tax, amortisation and non-trading items.

Turnover (£m)

from continuing operations

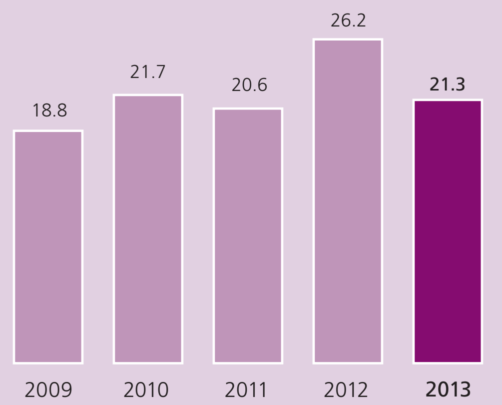


Underlying profit before tax* (£m)



Diluted earnings per share (pence)

before goodwill amortisation and non-recurring items



Dividend per share (pence)

Chairman's Statement

David Hudd
Chairman

2012-13 was another period of pleasing performance for the Group, during which strong cash generation continued and we raised equity funds to position us for the growth the Falkland Islands will experience in the build up to oil production.

We are unique in the Falkland Islands with a platform of leading retail and support service businesses, a significant land bank and the funds to develop them.

Financial

Underlying Group operating profit, before amortisation, interest and non-trading items was £3.5 million *(2012: £3.6 million)* after incurring some £0.4 million of one-off costs. Basic earnings per share has fallen from 26.3p in 2012 to 21.6p as a result of the 33% increase to share capital resulting from the equity capital raising in July 2012.

Reflecting our confidence in the outlook, we are pleased to recommend an increased final dividend of 7.5p per share which makes a total dividend of 11.5p per share, a 4.5% increase on the Group's 2012 dividend *(11p)*.

The Group ended the year in a strong financial position with cash balances of £11.4 million and £2.0 million of bank debt as a result of the good trading and the £10.0 million equity raised in July 2012.

Operations

For the Falkland Islands Company (FIC), retail profits were maintained and fishing activity was at reasonable levels but tourism declined following disruption to cruise schedules. Additional management and consultancy costs of £0.2 million were incurred in planning for the future, accounting for the reduction in contribution of 12% to £1.33 million *(2012: £1.51 million)*.

Momart enjoyed a very good year and achieved a 24% increase in contribution to £1.19 million *(2012: £0.96 million)* even after incurring relocation and restructuring expenses of £0.2 million. Each of the three business streams; exhibitions, commercial and storage, increased their profits.

The Portsmouth Harbour Ferry Company (PHFC) suffered a 9% fall in passenger journeys much of which we believe was attributable to changes in military travel arrangements. As a result of this, the operating profit fell by 10% to £0.98 million *(2012: £1.09 million)*.

Let me thank our staff for their contribution to our successful year.

Falkland Oil and Gas Limited (FOGL)

The Group owns 12,825,000 shares in FOGL which represents 4% of the issued share capital of that company; equivalent to one FOGL share for each issued share in Falkland Islands Holdings. In June 2012 we sold 1,175,000 shares to recoup the investment we had made in supporting the cash call in January 2012. The share sale generated a profit for the Group of £0.8 million. At 31 March 2013 the remaining holding had a market value of £3.4 million *(26.5p per share)* compared with a cost of £2.6 million *(20p per share)*.

In 2012 FOGL drilled exploration wells on the Loligo and Scotia prospects. Both wells encountered substantial volumes of gas in place; confirming the presence of a working petroleum system within the South and East Falklands Basins. The farm-ins with Noble Energy Falklands (Noble) and Edison International were a major achievement and mean that FOGL with cash resources of $220 million at 31 December 2012 is in the fortunate position of having secured funding for its share of the planned seismic and drilling programme.

In the 10 years from 2002 and the award of FOGL's licences, a total of $380 million has been spent in exploration; shooting 35,000 km of 2D seismic and drilling three wells. The pace of exploration is accelerating under the operatorship of Noble; and over the next three years a further $400-$500 million is expected to be invested. It is anticipated that over 10,000 sq km of 3D seismic will be shot, of which 6,000 sq km has recently been completed. This seismic data is focussing on oil potential and will identify the prospects for the next drilling campaign which is targeted to commence in 2014.

The scale of further work being undertaken is such that we remain optimistic about the prospects for FOGL and expect to retain a substantial shareholding until the outcome of this drilling programme is known.

Corporate Matters

I am delighted to welcome Edmund Rowland to the Board as a non-executive director representing our largest shareholder, Blackfish Capital, who subscribed £8.0 million in our July 2012 placing.

In addition to the items which have become regular business at our Annual General Meetings, this year we are proposing a re-organisation of the share capital under which the holdings of shareholders who hold less than 100 shares will be bought back by the Company, any such shareholders wishing to retain their holdings will be able to do so. For historical reasons we have a disproportionately large number of small shareholders and the proposed re-organisation will reduce the size of the shareholder register, and as a consequence the costs faced by the Company. At the same time it will provide a means for small shareholders to dispose of their shares for a fair price without incurring brokerage commission. Full details of the re-organisation are given in the Circular to shareholders accompanying the Notice of Annual General Meeting.

The notice of the Annual General Meeting and the full results for the year will be posted to shareholders and published on the website on 28 June 2013.

Outlook

The Falklands economy is on the threshold of a decade of dramatic growth as the Sea Lion discovery is developed. Projections prepared for the Falkland Islands Government show an increase in GDP from £140 million in 2012 to £1 billion in 2018, and on the basis of current oil prices related tax revenues are forecast to average £150 million a year for 30 years.

FIC will participate in the growth in the economy in a number of ways. Retail operations, which are central to our business are being extended and modernised. We are also investing the cash we raised last year in developing our property assets including the plans for construction of housing, offices and warehousing. With our construction partners we are tendering for infrastructure contracts, some of which will be awarded this year, and the new port planned for Port William represents a significant opportunity as we own 300 acres, adjoining the site.

The continued strength of the global art market and an increase in the number of major exhibitions provides Momart with good opportunities for further growth in the current year. A better year is expected for PHFC with a modest reduction in passenger numbers and we are looking forward to the introduction of a new ferry which is being commissioned for delivery in 2014.

We have an exciting future in prospect.

David Hudd
Chairman
10 June 2013

Managing Director's Business Review

John Foster
Managing Director

Group Overview

I am pleased to report another good year of trading for the Group, with a 4.4% increase in revenues to £35.6 million *(2012: £34.1 million)* and a 1.9% increase in underlying pre tax profits to £3.29 million *(2012: £3.23 million)*.

In the current year the Group benefited from interest of £0.16 million earned on the £10.0 million share subscription from shareholders in July 2012.

Underlying operating profits for the Group (before amortisation and financing costs) were a little lower at £3.50 million *(2012: £3.57 million)*.

Review of operations

Group revenue and operating profits are analysed below:

Group revenue

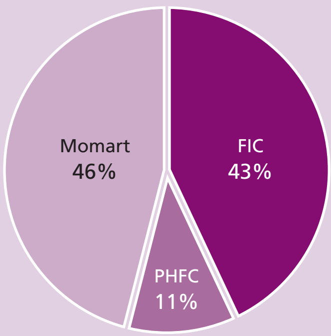
Year ended 31 March	2013 £m	2012 £m	*Change %*
Falkland Islands Company	**15.22**	14.98	*1.6*
Portsmouth Harbour Ferry	**4.08**	4.16	*(1.9)*
Momart	**16.30**	14.97	*8.9*
Total	**35.60**	34.11	*4.4*

Group underlying operating profit

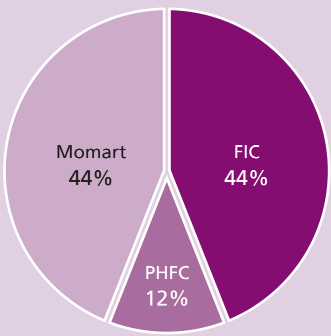
Year ended 31 March	2013 £m	2012 £m	*Change %*
Falkland Islands Company	**1.33**	1.52	*(12.5)*
Portsmouth Harbour Ferry	**0.98**	1.09	*(10.1)*
Momart	**1.19**	0.96	*24.0*
Total	**3.50**	3.57	*(1.9)*

Group revenue

2013

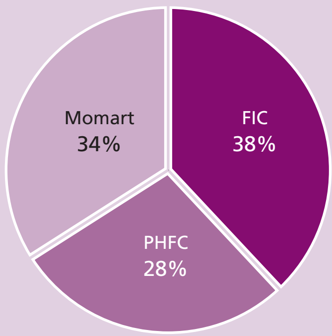


2012

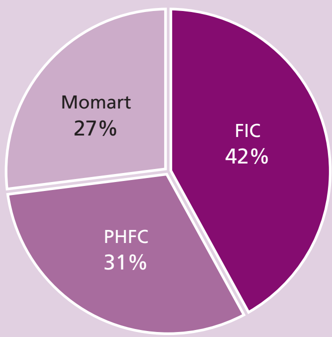


Underlying operating profit

2013



2012



FIC operating results

Year ended 31 March	2013 £m	2012 £m	Change %
Revenues			
Retail	9.73	9.45	*3.0*
Falklands 4x4	1.87	1.57	*19.1*
Freight and port services	1.65	2.01	*(17.9)*
Support services	1.21	1.28	*(5.5)*
Property and construction	0.76	0.67	*13.4*
Total FIC revenue	15.22	14.98	*1.6*
FIC underlying operating profit	1.33	1.52	*(12.5)*
Underlying operating profit margin (%)	8.7	10.1	*(13.9)*

Leiv Erikson oil rig in the Falkland's waters.

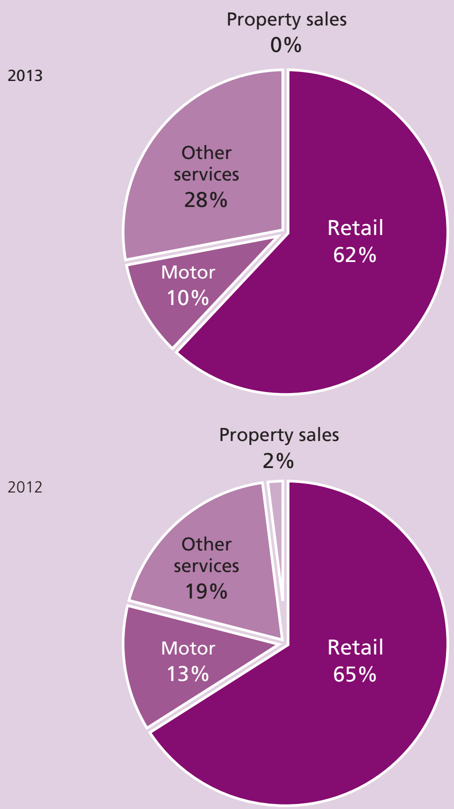
Falkland Islands Company (FIC)

The announcement in July 2012 of the farm-in by Premier Oil Plc to Rockhopper's Sea Lion discovery in the North Falklands basin added a new level of certainty to the likelihood of oil production in the Falklands. Development work on Sea Lion is expected to commence in mid-2014 with the first oil scheduled to flow in 2017. Oil production will have a dramatic impact on the Falkland Islands economy with GDP projected to increase sevenfold from 2012 to over £1 billion in 2018 and Government oil tax revenues projected to exceed £800 million over the first five years of production. Employment is expected to soar with an increase of over 25% in onshore employment.

In the year to 31 March 2013 the focus has been on preparing FIC to exploit the opportunities by strengthening the management team and modernising operations. The resultant revenue investment of some £0.2 million has meant that with little growth in the economy, operating profits were £0.19 million lower at £1.33 million on revenues marginally up at £15.22 million *(2012: £14.98 million)*.

Total retail sales grew by 3.0% but revenues from the West Store in Stanley which accounts for more than half of sales were unchanged as a result of a significant reduction in clothing sales caused by the insolvency of the supplier in June 2012. BHS clothing was introduced in the last quarter and its wider range led to a recovery in sales. Good features were a 39% sales increase from the expanded West Store at the Mount Pleasant complex and a 6% increase from warehouse sales resulting from offshore drilling and seismic contracts. The Capstan gift

FIC revenues



Managing Director's Business Review

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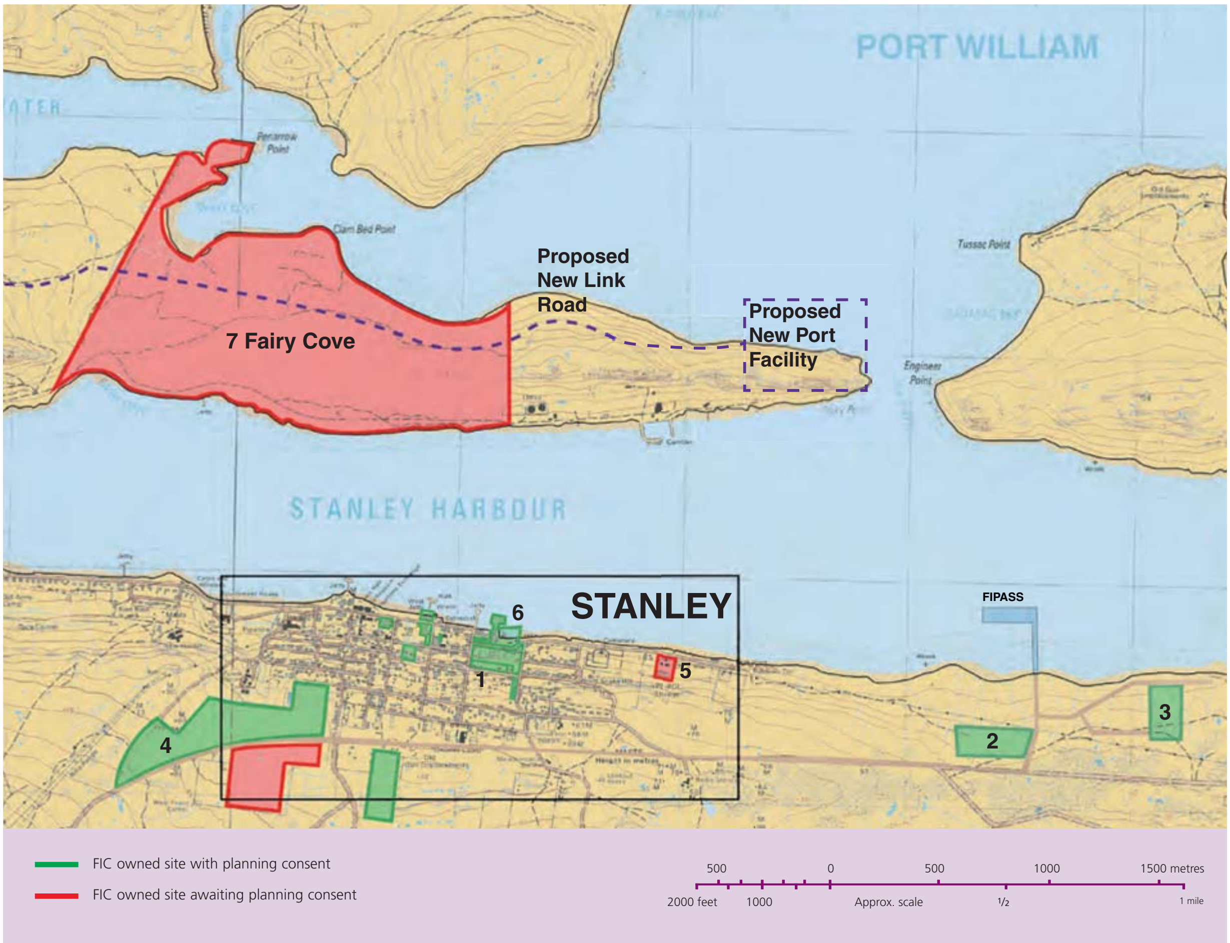

FIC properties – Stanley area

FIC development sites and list of acreage

Site	Map reference	Location and size	Development potential
Fitzroy Road	1	Central Stanley 1.0 acre	Planning for 26 x 2 bed apartments – build starts July 2013
Airport Road /FIPASS	2	FIPASS area 11.0 acres	Planning for warehousing and lay down areas
"Coastel" Road / Gordon Lines	3	FIPASS area 7.5 acres	Warehousing and lay down areas
Dairy Paddock	4	Western Stanley 36 acres	Planning for 3work camp / 350 houses
Former YPF site	5	Central Stanley 2.25 acres	Prime site for high density housing / offices
East Jetty	6	Waterfront Stanley 3.0 acres	FIC warehousing – prime site for re-development
Fairy Cove	7	North side of Stanley Harbour 301 acres	Adjoins site for proposed new deep water port at Navy Point

shop traded well despite a 15% fall in the number of cruise ship visitors and DIY and building material sales were little changed.

The motor business now branded as Falklands 4x4 benefited from the opening in November 2012 of the new Land Rover show room in central Stanley and sales increased by 19% despite a lack of military orders. Vehicle hire also performed well.

Revenues from third party freight and port services fell by 18% without the benefit of the demobilisation of the Ocean Guardian rig in December 2011 which had boosted revenues last year.

Support services saw revenues fall by 5% largely as a result of the reduction in the number of cruise ship visitors; although the problem had largely been resolved by the year end. FIC's Fishing Agency had another encouraging year and insurance broking and FIC's international removals business maintained their contribution.

The increasing demand for building services has led to a rapid expansion in Falkland Building Services (FBS) which is working on internal projects and smaller external contracts: revenues grew by 13% to £0.76 million in the year. The Government's provision of subsidised housing plots in Stanley has created a market for house building and during the year FBS successfully completed its first two houses; levels of interest for further work are encouragingly high. These jobs and internal projects mean that FBS already has over 30 employees.

In addition in June 2012 a joint venture, the South Atlantic Construction Company, (SATCO) was set up with Trant Construction; SATCO will be bidding for some of the infrastructure contracts generated by oil development.

Surveys were undertaken on a number of FIC sites in preparation for development. Planning permission has been obtained and work is in progress on the following projects:

- Fitzroy Road Apartment Complex – 26 two bedroom apartments.
- Hebe Street – four new 3/4 bed houses.
- Marmont Row – two new 2 bedroom apartments.
- Expansion and modernisation of FIC's offices at Crozier Place – including space for external tenants.

Other projects currently being progressed are:

- Warehousing and storage yards on two sites totalling 18.5 acres site above the FIPASS port facility in East Stanley.
- Work camp for 200 men at Dairy Paddock, central Stanley.

Capital expenditure of £1.3 million was incurred in the Falklands in the year including the building of the Falklands 4x4 showroom and construction plant and equipment and vehicles.

FIC's property rental portfolio currently comprises nine houses in Marmont Row and a further 23 properties in Stanley which are let to corporate clients, private individuals and staff. With the departure of the Leiv Eirikkson rig in December 2012 the demand for corporate lettings has temporarily decreased and rental income fell by 14% to £0.3 million in the year to 31 March 2013.

Managing Director's Business Review

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PHFC operating results

Year ended 31 March	2013 £m	2012 £m	*Change %*
Revenues			
Ferry fares	**3.89**	3.97	*(2.0)*
Cruising and Other revenue	**0.19**	0.19	*0.0*
Total PHFC revenue	**4.08**	4.16	*(1.9)*
Underlying PHFC operating profit	0.98*	1.09*	*(10.1)*
Underlying operating profit margin (%)	**24.0**	26.2	*(8.4)*
Passengers carried (000s)	**3,033**	3,328	*(8.9)*

*Operating profit is shown before charging finance lease interest of £0.24 million (2012 £0.18 million) relating to the new Pontoon.

Portsmouth Harbour Ferry Company (PHFC)

In 2012-13 changes to travel allowances for Ministry Of Defence employees led to an unexpected decline in commuter traffic and total passengers carried fell by 9%. This followed a decline of 2.1% in the prior year which was achieved despite a substantial increase in fares to fund the lease costs of the Gosport pontoon. Ferry fare revenues declined by 2% and operating profits, (before pontoon lease finance costs of £0.24 million) decreased by £0.11 million to £0.98 million (2012: £1.09 million).

Passenger numbers fell from the start of the financial year when the MoD changed its policy of reimbursing "Home to Duty" ferry fares for its staff at the Portsmouth Dockyard. As a result, some MoD commuters changed to travelling around the harbour by car and bus causing an estimated decline of 3,500 passenger journeys a week and leading to a fall in peak working week ferry traffic of 11.4%. Weekends were much less affected and fell by 3.3%.

We expect the impact of the MoD change to have been a one off step change and no further such changes to the ferry's customer base are anticipated. Discussions are being held with MoD officials to explore the options for changing their policy which is costly to the Treasury and leads to increased road congestion and pollution.

Ferry fares were increased by an average of 3.5% in June 2012, bringing the total cost of an adult return to £2.80. Discounted fares for regular customers, and lower tariffs for senior citizens and children (£1.80 return) reinforce the excellent value for money offered by the ferry service compared to bus and car travel. The ferry's record for reliability was maintained with on time departures at 99.5% for its 70,000 departures

The 50 year lease that secures PHFC's use of the new landing stage in Gosport was completed in December 2012. We now plan to complete the modernisation of the ferry fleet and a third modern ferry is being commissioned for delivery in Q3 2014. It is anticipated that the cost of some £3.3 million will be financed by a 10 year bank loan. The new vessel will offer improved passenger facilities and will have an estimated working life of over 30 years. No further significant expenditure on new vessels is anticipated in the next decade.

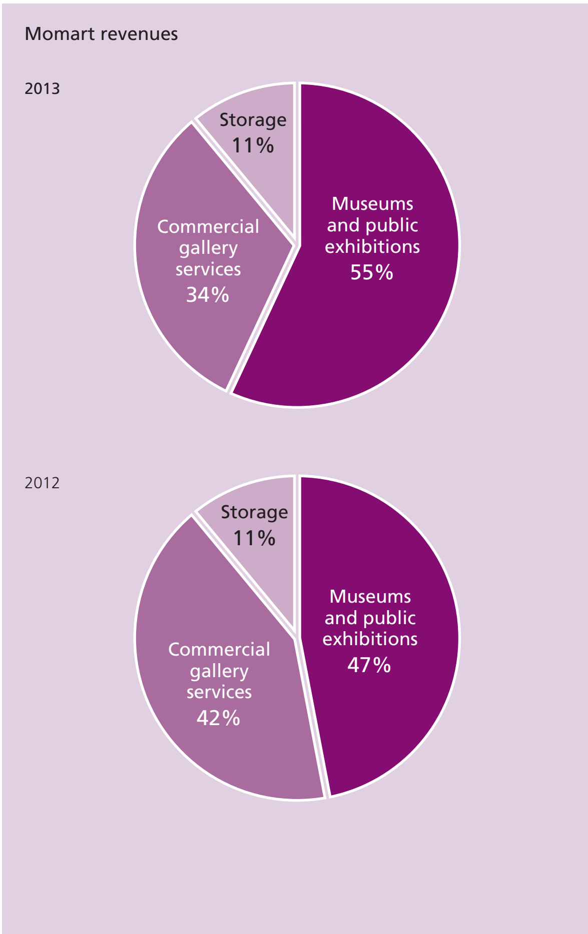
"Spirit of Portsmouth" on passage during a Harbour Cruise.

Oli Scarff/Getty Images

Momart employees installing the portrait of Queen Elizabeth II in the Chapter House at Westminster Abbey on May 17, 2013 in London, England.

Momart Operating results

Year ended 31 March	2013 £m	2012 £m	*Change %*
Revenues			
Museums and public exhibitions	9.01	7.05	*27.8*
Commercial gallery services	5.50	6.30	*(12.7)*
Storage	1.79	1.62	*10.5*
Total Momart revenue	16.30	14.97	*8.9*
Underlying Momart operating profit	1.19	0.96	*24.0*
Underlying operating profit margin (%)	7.3	6.4	*14.1*



Momart

Recent record auction results confirm the continuing strength of the global art market and Momart has continued to build on its expertise and capability as a world class art handler and installer. A presence has been maintained at the major international fairs including Art Basel, Frieze London and Miami Basel, relationships have been strengthened with leading auction houses and galleries and major international exhibitions have been secured. With a strong network of international partners and an enviable reputation for quality Momart is expected to enjoy further growth.

Managing Director's Business Review

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Momart produced another strong trading performance. The growth seen in the first half of the year continued into 2013 and total revenue for the year increased by 9% to £16.3 million *(2012: £15.0 million)* while underlying operating profit increased by 24% to £1.19 million from £0.96 million in 2012. This was arrived at, after charging the costs of moving to new offices and staff re-organisation costs of £0.2 million.

Exhibitions

Exhibition activity remained buoyant throughout the year with revenues increasing by 28% to £9 million. Momart's reputation for quality of service and technical mastery of complex installations helped deliver prestigious major contracts including the Bronze and Manet exhibitions at the Royal Academy, Ice Age Art and Pompeii at the British Museum, Schwitters at Tate Britain and Man Ray at the National Portrait Gallery. Improved operational efficiency helped by the introduction of the first modules of a new ERP system saw gross margins improve despite continued pressure on pricing. As a result the profit contribution from Exhibitions matched that of Gallery Services for the first time in many years.

Gallery Services

Gallery Services (GS) revenues were 13% lower than 2012 but a large one-off international contract benefitted last year and excluding this, GS revenues grew by 2%. More importantly gross margins increased by 4% as resources were concentrated on more complex added value contracts.

Storage

Storage revenues continued to increase with annual revenues up by 10% at £1.79 million. With full occupancy achieved in the year, plans are being progressed for additional warehouse facilities.

FOGL investment

Details of the Group's shareholding in FOGL are set out below:

31 March	2013
Number of shares held	12,825,000
FOGL share price (bid price)	26.5p
Market value of holding	£3.4m
Cost	£2.6m
Book cost per share	20.0p

The market value of the shareholding on 7 June 2013 was £3.3 million.

Trading outlook

The Group's prospects for growth in the medium term are outstanding; Momart is expected to maintain its positive momentum and FIC is uniquely positioned to benefit as the Falkland Islands prepares for oil.

At PHFC the arrival of a new ferry in 2014 will complete the modernisation of the fleet and underpin operations for the future, while passenger numbers will be dependent on the economic climate in the Portsmouth area.

In the Falklands, the absence of a drilling rig will constrain growth this year, although this may be offset by an early start to infrastructure projects. However, once work on the Sea Lion project commences onshore, the Falklands economy will experience dramatic growth. The Group is in a strong financial position and is investing now in order to be able to take advantage of opportunities.

John Foster
Managing Director
10 June 2013

Managing Director's Financial Review

Summary income statement

Year ended 31 March	2013 £m	2012 £m	*Change %*
Group revenue	35.60	34.11	*4.4*
Underlying operating profit	3.50	3.57	*(2.0)*
Net financing costs	(0.21)	(0.33)	*(36.4)*
Underlying profit before tax	3.29	3.24	*1.5*
Less: Fund raising costs	(0.68)	–	–
Gain on sale of FOGL shares	0.77	–	–
Net settlement loss on disposal of the PHFC pension scheme	(0.18)	–	–
Amortisation of intangibles	(0.40)	(0.40)	–
Profit before tax as reported	2.80	2.84	*(1.4)*

Revenue and underlying operating profit

Group revenue rose to £35.6 million and Group underlying operating profit fell slightly to £3.5 million in the year ended 31 March 2013. These are discussed in more detail above in the Review of Operations.

Non-trading items

Non-trading items comprise a profit of £0.77 million on the sale in June 2012 of 1,175,000 FOGL shares, costs of £0.68 million relating to the £10.0 million equity fund raising in July 2012, and a £0.18 million settlement loss incurred on the disposal of the PHFC pension scheme to Legal and General during the year.

Net financing costs

The Group's net financing costs fell to £0.21 million from £0.33 million after crediting a £0.16 million increase in interest earned on bank deposits, and a decrease in bank interest payable reflecting the reduction of £1 million in bank loans. This was partially offset by a full year of finance costs on the Gosport pontoon.

Underlying pre-tax profit

The Group's underlying pre-tax profits (PBT) increased by £0.05 million *(1.5%)* to £3.29 million *(2012: £3.23 million)*.

Reported pre-tax profit

After charging £0.4 million for the amortisation of intangible assets *(2012: £0.4 million)*, and the other non-trading items noted above, reported profit before tax for the Group decreased by 1.4% to £2.80 million *(2012: £2.84 million)*.

Taxation

The Group pays corporation tax at 24% on its UK earnings and 26% on its Falkland Islands earnings. In previous years, the Falklands Islands Company Limited (FIC) was taxed in both jurisdictions, however from 1 April 2012 FIC has elected to apply a foreign branch exemption, and as a result of this will no longer be required to pay UK corporation tax and will gain full benefit of the tax allowability in the Falkland Islands of expenditure on commercial and industrial buildings.

Earnings per share

Year ended 31 March	2013 £m	2012 £m	*Change %*
Underlying profit before tax	3.29	3.24	*1.5*
Taxation on underlying profit	(0.80)	(0.82)	*(2.4)*
Underlying profit after tax	2.49	2.42	*2.9*
Diluted average number of shares in issue (thousands)	11,704	9,239	*26.7*
Effective underlying tax rate	24.2%	25.3%	*(4.3)*
Diluted EPS	21.3p	26.2p	*(18.7)*

Fully diluted Earnings per Share (EPS) derived from underlying profits, decreased by 18.7% to 21.3p *(2012: 26.2p)*. This reflects the 26.7% increase in the diluted average number of shares, which has increased due to the 33% increase in the share capital of the Company resulting from the share subscription and fund raising in July 2012.

Managing Director's Financial Review

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Balance sheet

The Group's Balance Sheet remains strong. Total net assets increased by £4.8 million from £29.5 million in the prior year to £34.3 million as at 31 March 2013 due to the net £9.9 million increase in share capital from the July equity raise, offset by a £4.9 million fall in the market value of the Group's investment in FOGL whose share price fell over the year from 64.5 pence to 26.5 pence.

Retained earnings after the payment of tax and dividends increased by £0.3 million to £13.6 million *(2013: £13.3 million)*. Bank borrowings fell to £2.0 million *(2012: £3.0 million)* and the Group had UK cash balances of £11.4 million *(2012: £2.8 million)*.

The carrying value of intangible assets was reduced by annual amortisation charges of £0.4 million to £12.3 million as at 31 March 2013 *(2012: £12.7 million)* (see note 11).

The net book value of property, plant and equipment increased by £0.8 million to £13.7 million *(2012: £12.9 million)* after capital investment of £2.2 million, including £1.3 million in the Falkland Islands (see note 12).

The Group owns investment properties comprising commercial and residential properties in the Falkland Islands held for rental, together with approximately 400 acres of undeveloped land in and around Stanley. This includes 18 acres for industrial development, 25 acres of prime mixed-use land and potentially 300 acres for future port related development. FIC has planning consent for approximately 30 residential units which are being built to augment the company's rental portfolio and consent for the development of warehousing and storage areas on its industrial land in East Stanley.

During the year, the Marmont Row heritage cottages (book value £1.0 million) were transferred from current assets to investment properties, reflecting the decision to retain them in the rental portfolio. At 31 March 2013 the net book value of land and investment properties, following this transfer was £2.8 million *(2012: £1.5 million)*.

The value of the investment properties owned by FIC has been reviewed by a Director of FIC who is a Chartered Surveyor and is resident in the Falkland Islands using guidelines provided by the Royal Institution of Chartered Surveyors (RICS) (Red Book). At 31 March 2013 the fair value of this property portfolio was estimated at £5.7 million *(31 March 2012: £3.9 million)*. This valuation includes £1.5 million for the Marmont Row properties. As oil development proceeds, the value of these properties is expected to increase significantly.

The Group's 4% shareholding in FOGL is discussed in the Chairman's Statement and Managing Director's Business Review.

Deferred tax assets relating to future pension liabilities increased to £0.67 million *(2012: £0.59 million)*. These deferred tax assets relating to future pension liabilities now only include the deferred tax on the FIC unfunded scheme calculated by applying the 26% Falklands tax rate. In the prior year, in accordance with IFRS requirements, the deferred tax was based on the UK tax rate of 24%.

Non-property related inventories largely representing stock held for resale in the Group's retail operations in the Falkland Islands increased by £1.1 million to £5.1 million at 31 March 2013. The increase in stock results from FBS stock and the timing of shipments to the Islands.

Trade and Other Receivables increased by £0.5 million to £6.1 million at 31 March 2013. Average debtor days outstanding were 57.1 *(2012: 57.7)*.

Outstanding finance leases totalled £5.3 million *(2012: £5.3 million)*. £4.9 million of which is in respect of the 50 year Gosport Pontoon lease.

Corporation tax due for payment within the next 12 months is £0.4 million *(2012: £0.5 million)*.

This is lower than the £0.8 million taxation charge on trading, as £0.3 million of the 2013 tax charge has been paid in installments in advance as required by HMRC.

Trade and other payables increased from £8.8 million to £10.0 million at 31 March 2013 reflecting increased trading activity.

At 31 March 2013 the liability due in respect of the Group's defined benefit pension schemes was £2.6 million *(2012: £2.5 million)*. The pension scheme in the Falkland Islands, which was closed to new entrants in 1988 and to further accrual in 2007, is unfunded and liabilities are met as they fall due from operating cash flow. Responsibility for the obligations under the defined benefit scheme for the Portsmouth Harbour Ferry Company was transferred to Legal and General during the year and the Group has no remaining liability.

The net deferred tax liabilities, excluding the pension asset at 31 March 2013 increased by £0.6 million to £1.7 million *(2012: £1.1 million)* due principally to the a £0.6 million increased deferred tax charge on the fixed assets held in the Falklands arising from timing differences on commercial industrial buildings calculated in accordance with IFRS. Falklands tax legislation permits capital allowances of 10% to be claimed on the majority of the FIC properties. With such assets depreciated over 20-50 years a temporary timing difference is produced on which deferred tax must be provided. In previous years because UK legislation had abolished Industrial buildings allowances expenditure on such buildings was disallowed and as a result higher levels of tax were paid. Following the foreign branch exemption the Group will now gain the benefit of tax allowability on buildings in the Islands reducing the total amount of tax paid in the future.

Net assets per share were 276p at 31 March 2013 *(2012: 317p)* largely as a result of the lower carrying value of the Group's holding in FOGL at the year end.

Cash flows

Operating cash flow

Net cash flow from operating activities decreased from £4.6 million last year to £3.5 million, primarily due to an increase in working capital as Falkland Islands prepared for future growth.

The Group's Cash Flow can be summarised as follows:

Year ended 31 March	2013 £m	2012 £m
Underlying PBT	3.3	3.2
Depreciation	1.2	1.1
Net Interest payable	0.2	0.3
Underlying EBITDA	4.7	4.6
(Increase)/decrease in working capital	(0.5)	0.8
Tax paid	(0.7)	(0.9)
Other	–	0.1
Net cash flow from operating activities	3.5	4.6
Net proceeds of fund raising	9.2	0.3
Sale of 1.2 million FOGL shares	1.0	–
Less:		
Capital expenditure	(2.4)	(1.3)
Purchase of 2 million FOGL shares	–	(0.9)
Disposal of PHFC pension scheme	(0.3)	–
Loan repayments and net bank interest received/(paid)	(1.0)	(1.2)
Dividends paid	(1.4)	(0.9)
Other	–	0.1
Net inflow/(outflow) from financing and investing activities	5.1	(3.9)
Net cash flow	8.6	0.7
Cash balance b/fwd	2.8	2.1
Cash balance c/fwd	11.4	2.8

Managing Director's Financial Review

CONTINUED

Financing outflows

During the year the Group received £9.9 million from the issue of new shares and £1.0 million from the sale of 1.2 million FOGL shares. The Group paid increased dividends of £1.4 million *(2012: £0.9 million)* and capital investment totalled £2.4 million *(2012: £1.3 million)*; of which £1.3 million was invested in Stanley including in the new 4x4 show room, further property development and the purchase of construction equipment. At Momart capital expenditure included replacement vehicles and the fitting out of new offices at Canary Wharf.

Expenses related to the share subscription were £0.7 million and closure costs required to buy out the PHFC pension scheme amounted to £0.3 million. (Under IFRS £0.18 million of the costs of the scheme's closure was charged in the income statement and the balance taken through reserves).

Scheduled loan repayments of £1.1 million were made reducing bank debt to £2.0 million.

With a net inflow from financing and investment of £5.1 million *(2012: £3.9 million outflow)* the Group generated a net cash inflow for the year of £8.6 million *(2012: £0.7 million)*.

Business drivers, risk factors and key performance indicators

Business drivers

All the Group's businesses are consumer oriented and their success is linked to general economic conditions in their markets. Inflation, employment levels, interest rates and government spending programmes all have an effect on disposable incomes and consumer confidence.

The Group's businesses in the Falkland Islands and Gosport are based on local demand for their goods and services. In addition, demand is boosted by tourists and both locations have been affected by a cyclical reduction in the number of tourists and in the Falkland Islands by Argentinian pressure on cruise ship operators. In the Falklands the economy has been closely linked to the fishing industry which accounts for over 60% of GDP. The level of squid catches is variable and in particular Illex squid, has experienced very large variations. Loligo, is more important to the economy because Falkland Companies own the fishing licences, and these catches are less variable. Since the start of exploration drilling in the north Falkland basin in 2010, offshore oil exploration has had a significant impact on the economy and this is expected to decline in the current year following the departure of the Leiv Eiriksson rig, however drilling activity is expected to resume in 2014. If oil exploration were to stop, this stimulus would cease and activity would revert to pre-2010 levels, conversely if hydrocarbon exploitation progresses as expected the positive impact on the Falkland Islands economy will be very significant.

For Momart, activity in the art market is linked to the performance of the world economy with increasing influence attributable to emerging economies in the Middle East, China, India and South America. Despite subdued economic conditions in the UK and Europe the global art market is still experiencing growth with continued demand for high quality artworks. In this market, the appetite for art from ultra high net worth individuals is the key driver. In the museums sector government funding and commercial sponsorship remain under pressure but attendances and interest in major exhibitions has continued to grow and helped museums maintain their income and attendances.

Income generated from cultural exports through travelling exhibitions is an important source of revenue for museums and galleries although in the near term privately sponsored exhibitions are likely to increase more than government funded exhibitions.

Risk factors

Both the PHFC and FIC businesses are sensitive to changes in local economic conditions and employment levels in local government and businesses. The level of competition also affects performance. FIC faces competition in almost every area of its operations but due to the company's long history and accumulated expertise, in most sectors in which it operates FIC has a leading market position. Maintaining leadership depends on continued innovation, investment and a commitment to customer service.

Argentina continues to claim sovereignty over the Falkland Islands. The British Government continues to re-affirm its commitment to defend the islands sovereignty in unequivocal terms and this stance was reinforced by the Falklands referendum in March 2013 where an overwhelming vote was recorded in favour of the maintenance of the Falklands status as a British Overseas Territory. Despite this Argentina has continued to protest and their attitude makes the development of commercial links with other South American countries difficult although the key trade and logistic links with the UK are unaffected. Argentina's military capacity is much diminished since the conflict of 1982, whereas the Islands defences are much stronger. Argentina has expressly ruled out military action against the Falklands and the risk of such action is considered to be negligible. Diplomatic activity by Argentina is likely to continue, but for the foreseeable future it is not expected to have any impact on the status of the Falkland Islands or on the exploitation of hydrocarbons.

Although there is no directly competing service to the Portsmouth Harbour Ferry between Gosport and Portsmouth, customers are able to travel around the harbour by car or bus. Maintaining and promoting the relative attractions of using the ferry whether for commuting to work, shopping or for tourism is a key strategic focus. PHFC will continue to work closely with local government and other public transport providers to reinforce its advantages as the faster, more cost effective, and environmentally friendly alternative to travelling by car.

For Momart the physical security of artworks is of paramount importance and the company goes to great lengths to guard against the risk of theft or damage to the works in its care. The other risks faced by Momart are those factors which might impact the global art market. For instance a reduction in the personal wealth of collectors and investors could result in a contraction of personal or institutional budgets which would lead to a reduction in the movement and display of art. The emergence of new competitors could also affect the business adversely. In addition, because much of Momart's business involves working with overseas partners, volatility in the Sterling/Dollar and Sterling/Euro exchange rates has an impact on its cost base and profitability.

Key performance indicators

At Group level management attention is focussed on revenue, costs and the contribution generated by each business.

In the Falkland Islands businesses like-for-like revenue growth is a key measure of performance, especially for the retail outlets which account for two thirds of revenues. In addition to sales trends, gross margins by product costs are kept under close review.

At PHFC, passenger numbers and the average fare yield are monitored daily and weekly. Other key concerns are ferry reliability and passenger safety and operating costs and net profitability.

At Momart, forward sales projections order intake and conversion rates are constantly monitored and these are an important predictive indicator which facilitates forward planning. Direct costs and contribution from individual contracts are reviewed as are the level of indirect costs and overtime.

John Foster
Managing Director
10 June 2013

Board of Directors and Secretary

David Hudd (68) Chairman

David joined the Board as Chairman in 2002 and is also Chairman of the Nominations Committee. He is a Chartered Accountant and was a partner in Price Waterhouse until 1982. Since then, he has been Chairman or Chief Executive and a non-executive Director of a number of listed and unlisted companies. He was a founder director of Falkland Oil and Gas Limited and remains a non-executive Director of that company.

John Foster (55) Managing Director

John joined the Board in 2005. He is a Chartered Accountant and previously served as Finance Director for software company Macro 4 plc and toy retailer, Hamleys plc. Prior to joining Hamleys, he spent three years in charge of acquisitions and disposals at FTSE 250 company Ascot plc and before that worked for nine years as a venture capitalist with a leading investment bank in the City.

Mike Killingley (62) Non-executive Director

Mike joined the Board in 2005, having previously been appointed non-executive Chairman of the Portsmouth Harbour Ferry Company Limited, following the Company's successful bid. He is also a non-executive Director of an investment trust, Amati VCT 2 plc, and Treasurer of the University of Southampton. He is a Chartered Accountant and was a partner of KPMG (and predecessor firms) until 1998. Since then he has been non-executive Chairman of several quoted and unquoted companies. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

Jeremy Brade (51) Non-executive Director

Jeremy joined the Board in 2009. He is a Director of Harwood Capital Management where he is the senior private equity partner. Jeremy has served on the boards of several private and publicly listed international companies. Formerly Jeremy was a diplomat in the Foreign and Commonwealth Office, and before that an Army officer. He is Chairman of the Remuneration Committee.

Edmund Rowland (27) Non-executive Director

Edmund was appointed to the Board on 16 April 2013. He currently serves as a Director of Blackfish Capital Management, a specialist asset manager based in London and as an employee of Banque Havilland S.A (London Branch), previously having gained experience in London and Hong Kong, as an analyst and investment manager with BNP Paribas and Blackfish. He has broad experience of principal investing in both equity and credit capital markets, with a focus on special situations.

Carol Bishop (39) Company Secretary

Carol Bishop joined the Company in December 2011. She is a Chartered Accountant and has previously worked for London Mining plc, an AIM listed company as Group Reporting manager. Prior to this she spent three years at Hanson plc and six years at the Peninsular and Oriental Steam Navigation Company.

Directors' Report

The Directors present their annual report and the financial statements for the Company and for the Group for the year ended 31 March 2013.

Results and dividend

The Group's result for the year is set out in the Group Income Statement on page 22. The Group profit for the year after taxation amounted to £1,604,000 *(2012: £2,256,000)*. Underlying basic earnings per share were 21.6p *(2012: 26.3p)*. The Directors recommend a dividend of 7.5p per share *(2012: 7.0p)* which, if approved by shareholders at the forthcoming Annual General Meeting will be paid on 18 September 2013 to shareholders on the register at close of business on 30 August 2013. With the interim dividend of 4.0p paid in January 2013 *(2012: 4.0p)* this will take the total dividend for the year to 11.5p per share *(2012: 11.0p)* The proposed final dividend has not been included in creditors as it was not approved before the year end. Dividends paid during the year comprise a dividend of 7.0p per share in respect of the previous year ended 31 March 2012 and an interim dividend of 4.0p per share in respect of the current year.

Principal activities and business review

The business of the Group during the year ended 31 March 2013 was general trading in the Falkland Islands, the operation of a ferry across Portsmouth Harbour and the provision of international arts logistics and storage services. The principal activities of the Group are discussed in more detail in the Business Review on pages 4 to 10 and should be considered as part of the Directors' Report for the purposes of the requirements of the enhanced Directors' Report guidance.

The principal activity of the Company is that of a holding company.

Directors

On 16 April 2013, Mr. Edmund Rowland was appointed as a non-executive Director of the Company, representing Blackfish Capital Management Limited, the fund manager of Blackfish Capital Alpha Fund SPC – Blackfish Talisman Fund, which is a 20.1% shareholder in FIH.

Directors' interests

The interests of the Directors in the issued shares and share options over the shares of the Company are set out below under the heading "Directors' interests in shares" on page 19. During the year no Director had an interest in any significant contract relating to the business of the Company or its subsidiaries other than his own service contract.

Health and safety

The Group is committed to the health, safety and welfare of its employees and third parties who may be affected by the Group's operations. The focus of the Group's effort is to prevent accidents and incidents occurring by identifying risks and employing appropriate control strategies. This is supplemented by a policy of investigating and recording all incidents.

Employees

The Board is aware of the importance of good relationships and communication with employees. Where appropriate, employees are consulted about matters which affect the progress of the Group and which are of interest and concern to them as employees. Within this framework, emphasis is placed on developing greater awareness of the financial and economic factors which affect the performance of the Group. Employment policy and practices in the Group are based on non-discrimination and equal opportunity irrespective of age, race, religion, sex, colour and marital status. In particular, the Group recognises its responsibilities towards disabled persons and does not discriminate against them in terms of job offers, training or career development and prospects. If an existing employee were to become disabled during the course of employment, every practical effort would be made to retain the employee's services with whatever retraining is appropriate. The Group's pension arrangements for employees are summarised in note 25 on pages 55 to 60.

Share capital and substantial interests in shares

During the year the Group issued 3,119,837 shares by means of a placing and open offer at 320 pence per share to raise £10.0 million before expenses to provide funds to invest in the Group's businesses in the Falkland Islands. In addition 14,219 share options were exercised (2012: 77,153).

Further information about the Company's share capital is given in note 27 on page 62. Details of the Company's executive share option scheme and employee ownership plan can be found on page 19 and in note 26 on pages 61 and 62.

Directors' Report

CONTINUED

The Company has been notified of the following interests in 3% or more of the issued ordinary shares of the Company as at 31 March 2013.

	Number of shares	Percentage of shares in issue
Blackfish Capital Alpha Fund SPC – Blackfish Talisman Fund	2,500,000	20.1
Fidelity Investments International	809,914	6.5
L S Licht	734,810	5.9

Payments to suppliers

The policy of the Company and each of its trading subsidiaries, in relation to all its suppliers, is to settle the terms of payment when agreeing the terms of the transaction and to abide by those terms, provided that it is satisfied that the supplier has provided the goods or services in accordance with agreed terms and conditions. The Group does not follow any code or standard payment practice. As a holding company, the Company had no trade creditors at either 31 March 2013 or 31 March 2012.

Charitable and political donations

Charitable donations made by the Group during the year amounted to £19,443 *(2012: £15,560)*, largely to local community charities in Gosport and the Falkland Islands. There were no political donations in the year *(2012: nil)*.

Disclosure of information to auditors

The Directors who held office at the date of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is are aware of that information.

Auditors

KPMG Audit Plc have notified the company that they are not seeking reappointment. A resolution proposing the appointment of KPMG LLP will be put to shareholders at the Annual General Meeting.

Annual General Meeting

The Company's Annual General Meeting will be held at the London offices of FTI Consulting, Holborn Gate, 26 Southampton Buildings, WC2A 1PB at 14:30 on 20 August 2013. The Notice of the Annual General Meeting and a description of the special business to be put to the meeting are considered in a separate Circular to Shareholders which accompanies this document.

Details of Directors' remuneration and emoluments

The remuneration of non-executive Directors consists only of annual fees for their services both as members of the Board and of Committees on which they serve.

An analysis of the remuneration and taxable benefits in kind (excluding share options) provided for and received by each Director during the year to 31 March 2013 and in the preceding year follows:

	Salary £'000	Bonuses £'000	**2013 Total £'000**	2012 Total £'000
David Hudd	125	90	**215**	166
John Foster	191	87	**278**	272
Mike Killingley	35	–	**35**	30
Jeremy Brade	30	–	**30**	25
	381	177	**558**	493

None of the Directors of the Company receive any pension contributions or benefit from any Group pension scheme.

The Executive Directors participate in annual performance related bonus arrangements. The Chairman had the potential during the year of earning up to 80% of his salary and the Managing Director up to 75%. The bonuses are subject to the achievements of specified corporate and personal objectives.

Directors' interests in shares

As at 31 March 2013 and 31 March 2012, the share options of executive Directors may be summarised as follows:

Date of grant	Number of shares D L Hudd	Number of shares J L Foster	Exercise price	Exercisable from	Expiry date
10 Feb 2005	–	57,692	£5.200	10 Feb 2008	9 Feb 2015
14 Jun 2005	49,411	14,117	£4.250	14 Jun 2008	13 Jun 2015
7 Aug 2007	–	27,517	£3.300	7 Aug 2010	6 Aug 2017
15 Jul 2009	43,674	44,550	£2.900	15 Jul 2013	14 Jul 2019
21 Dec 2010	20,000	20,000	£3.425	21 Dec 2013	20 Dec 2020
13 Aug 2012	61,881	76,700	£4.040	13 Aug 2015	13 Aug 2022
Total	174,966	240,576			

The mid-market price of the Company's shares on 31 March 2013 was 332.5 pence and the range in the year was 300.0 pence to 413.2 pence.

The Directors' options extant at 31 March 2013 totalled 415,542 and represented 3.3% of the Company's issued share capital. The 445,802 remaining options are held by 52 other employees of the Group including subsidiary directors and senior management. Under the Company's executive share option scheme, executive Directors and senior executives have been granted options to acquire ordinary shares in the Company after a period of three years from the date of the grant. All outstanding options have been granted at an option price of not less than market value at the date of the grant. The exercise of options is subject to various performance conditions, which have been determined by the remuneration committee after discussion with the Company's advisors.

In addition to the share options set out above, the interests of the Directors, their immediate families and related trusts in the shares of the Company according to the register kept pursuant to the Companies Act 2006 were as shown below:

	Ordinary shares as at 31 March 2013	Ordinary shares as at 31 March 2012
David Hudd	**110,630**	100,000
John Foster	**25,584**	15,000
Mike Killingley	**16,000**	10,000
Jeremy Brade	**10,000**	4,000
Edmund Rowland	**2,500,000***	–

*Edmund Rowland is a Director of Blackfish Capital Management Limited, the fund manager of Blackfish Capital Alpha Fund SPC – Blackfish Talisman Fund, which holds 2,500,000 shares. He does not hold any shares directly in the Company.

Share Incentive Plan

In November 2012, the Company implemented an HMRC approved Share Incentive Plan (SIP) available to employees of the Group, which enables UK and Falklands staff to acquire shares in the Company through monthly purchases of up to £125 per month or 5% of salary, whichever is lower. For each three shares purchased by the employee, the Company contributes one free matching share. These shares are placed in trust and if they are left in trust for at least five years, they can be removed free of UK income tax and national insurance contributions. During the year ended 31 March 2013 the Company purchased £500 of matching shares for Mr D Hudd and Mr J Foster.

Directors' Report

CONTINUED

Statement of Directors' responsibilities in respect of the Directors' Report and financial statements

The Directors are responsible for preparing the Annual Report and the Group and Company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and Company financial statements for each financial year. As required by the AIM rules of the London Stock Exchange, they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union and applicable laws and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of their profit or loss for that period.

In preparing each of the Group and Company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm, to the best of their knowledge that:

- these financial statements, prepared in accordance with IFRS, as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation as a whole; and
- the management report, which comprises the Chairman's Statement and the Business Review, includes a fair review of the development and performance of the business and of the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by the Board and signed on its behalf by:

Carol Bishop
Company Secretary
10 June 2013

Kenburgh Court
133-137 South Street
Bishop's Stortford
Hertfordshire
CM23 3HX

Independent Auditor's Report to the members of Falkland Islands Holdings plc

We have audited the financial statements of Falkland Islands Holdings plc for the year ended 31 March 2013 set out on pages 22 to 71. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement (set out on page 20) the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2013 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Wayne Cox (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
St Nicholas House
Park Row
Nottingham NG1 6FQ
10 June 2013

Consolidated Income Statement

FOR THE YEAR ENDED 31 MARCH 2013

Notes		Before amortisation and non-trading items 2013 £'000	Amortisation of intangibles and non-trading items (note 5) 2013 £'000	Total 2013 £'000	Before amortisation of intangibles 2012 £'000	Amortisation of intangibles and non-trading items (note 5) 2012 £'000	Total 2012 £'000
4	**Revenue**	35,596	–	35,596	34,109	–	34,109
	Cost of sales	(21,178)	–	(21,178)	(20,131)	–	(20,131)
	Gross profit	14,418	–	14,418	13,978	–	13,978
	Other administrative expenses	(10,916)	–	(10,916)	(10,410)	–	(10,410)
	Fund raising expenses	–	(682)	(682)	–	–	–
15	Gain on sale of FOGL shares	–	768	768	–	–	–
25	Net settlement loss on the transfer of the PHFC pension scheme	–	(182)	(182)	–	–	–
11	Amortisation of intangible assets	–	(398)	(398)	–	(398)	(398)
	Operating expenses	(10,916)	(494)	(11,410)	(10,410)	(398)	(10,808)
	Operating profit	3,502	(494)	3,008	3,568	(398)	3,170
	Finance income	280	–	280	123	–	123
	Finance expense	(491)	–	(491)	(457)	–	(457)
8	**Net financing costs**	(211)	–	(211)	(334)	–	(334)
	Profit / (loss) before tax from continuing operations	3,291	(494)	2,797	3,234	(398)	2,836
9	Taxation	(796)	(397)	(1,193)	(817)	237	(580)
	Profit / (loss) for the year attributable to equity holders of the Company	2,495	(891)	1,604	2,417	(161)	2,256
10	Earnings per share						
	Basic	21.6p		13.9p	26.3p		24.5p
	Diluted	21.3p		13.7p	26.2p		24.4p

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 MARCH 2013

	2013 £'000	2012 £'000
Profit for the year	1,604	2,256
Unrealised loss on revaluation of shares held in Falkland Oil and Gas Limited	(4,873)	(2,540)
Transfer to the income statement on sale of shares in FOGL	(521)	–
PHFC actuarial loss on pension scheme	(77)	(75)
FIC actuarial loss on pension scheme	(173)	(289)
Movement on deferred tax asset relating to pension schemes	61	87
Effect of tax rate changes on deferred tax asset relating to pension schemes	47	(42)
Other comprehensive expense	(5,536)	(2,859)
Total comprehensive expense	(3,932)	(603)

Consolidated Balance Sheet

AS AT 31 MARCH 2013

Notes		2013 £'000	2012 £'000
	Non-current assets		
11	Intangible assets	**12,315**	12,713
12	Property, plant and equipment	**13,725**	12,911
13	Investment properties	**2,786**	1,452
15	Shares held in Falkland Oil and Gas Limited	**3,399**	9,030
16	Investment in Joint Venture	**50**	–
17	Non-current assets held-for-sale	**20**	20
18	Hire purchase debtors due in more than one year	**121**	150
19	Deferred tax assets	**671**	593
	Total non-current assets	**33,087**	36,869
	Current assets		
	Trading inventories	**5,099**	3,991
	Property inventories	**–**	1,010
20	Inventories	**5,099**	5,001
21	Trade and other receivables	**6,133**	5,620
18	Hire purchase debtors due in less than one year	**486**	385
22	Cash and cash equivalents	**11,416**	2,751
	Total current assets	**23,134**	13,757
	TOTAL ASSETS	**56,221**	50,626
	Current liabilities		
23	Interest-bearing loans and borrowings	**(1,149)**	(1,140)
	Corporation tax payable	**(364)**	(508)
24	Trade and other payables	**(10,012)**	(8,753)
	Total current liabilities	**(11,525)**	(10,401)
	Non-current liabilities		
23	Interest-bearing loans and borrowings	**(6,139)**	(7,145)
25	Employee benefits	**(2,584)**	(2,470)
19	Deferred tax liabilities	**(1,694)**	(1,122)
	Total non-current liabilities	**(10,417)**	(10,737)
	TOTAL LIABILITIES	**(21,942)**	(21,138)
	Net assets	**34,279**	29,488
27	Capital and reserves		
	Equity share capital	**1,243**	930
	Share premium account	**17,447**	7,871
	Other reserves	**1,162**	1,162
	Retained earnings	**13,612**	13,316
	Financial assets fair value reserve	**815**	6,209
	Total equity	**34,279**	29,488

These financial statements were approved by the Board of Directors on 10 June 2013 and were signed on its behalf by:

J L Foster

Director

Company Balance Sheet

AS AT 31 MARCH 2013

Notes		2013 £'000	2012 £'000
	Non-current assets		
14	Financial assets – investments in subsidiaries	29,097	31,488
21	Other receivables	1,709	4,925
19	Deferred tax	4	5
	Total non-current assets	30,810	36,418
	Current assets		
21	Trade and other receivables	21	25
22	Cash and cash equivalents	10,554	–
	Total current assets	10,575	25
	TOTAL ASSETS	41,385	36,443
	Current liabilities		
23	Interest-bearing loans and borrowings	(800)	(800)
22	Bank overdraft	–	(1,409)
	Corporation tax payable	(51)	(18)
24	Trade and other payables	(461)	(511)
	Total current liabilities	(1,312)	(2,738)
	Non-current liabilities		
23	Interest-bearing loans and borrowings	(769)	(1,553)
24	Other payables	(582)	(556)
	Total non-current liabilities	(1,351)	(2,109)
	TOTAL LIABILITIES	(2,663)	(4,847)
	Net assets	38,722	31,596
27	Capital and reserves		
	Called up share capital	1,243	930
	Share premium account	17,447	7,871
	Other reserves	6,910	6,910
	Retained earnings	13,122	15,885
	Total equity	38,722	31,596

These financial statements were approved by the Board of Directors on 10 June 2013 and were signed on its behalf by:

J L Foster
Director

Registered company number: 03416346

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2013

Notes		2013 £'000	2012 £'000
	Cash flows from operating activities		
	Profit for the year	1,604	2,256
	Adjusted for:		
	(i) Non-cash items:		
	Depreciation	1,204	1,069
	Amortisation	398	398
	Loss / (profit) on disposal of fixed assets	56	(2)
	Amortisation of loan fees	16	16
	Expected return on pension scheme assets	(25)	(29)
	Interest cost on pension scheme liabilities	134	138
	Equity-settled share-based payment expenses	134	101
	Non-cash items adjustment	1,917	1,691
	(ii) Other items:		
	Bank interest receivable	(164)	(5)
	Bank interest payable	85	115
	Gain on disposal of FOGL shares	(768)	–
	Fund raising expenses	682	–
	Net settlement loss on the transfer of the PHFC pension scheme	182	–
	Corporation and deferred tax expense	1,193	580
	Other adjustments	1,210	690
	Operating cash flow before changes in working capital and provisions	4,731	4,637
	(Increase) / decrease in trade and other receivables	(513)	127
	Decrease in property inventories	-	194
	(Increase) / decrease in other inventories	(1,108)	224
	Increase in trade and other payables	1,221	419
	Decrease in provisions and employee benefits	(129)	(133)
	Changes in working capital and provisions	(529)	831
	Cash generated from operations	4,202	5,468
	Corporation taxes paid	(735)	(862)
	Net cash flow from operating activities	3,467	4,606
	Cash flows from investing activities:		
	Purchase of 2 million FOGL shares	–	(860)
	Purchase of property, plant and equipment	(2,415)	(1,277)
	Proceeds from the disposal of property, plant and equipment	17	14
	Proceeds received from the sale of FOGL shares	1,005	–
	Cash paid on transfer of pension scheme	(260)	–
	Investment in Joint Venture	(50)	–
	Interest received	164	5
	Net cash flow from investing activities	(1,539)	(2,118)
	Cash flow from financing activities:		
	Increase in other financial assets	(72)	(223)
	Repayment of secured loan	(1,135)	(1,110)
	Financing loan draw downs	122	260
	Interest paid	(85)	(115)
	Proceeds from the issue of ordinary share capital	9,889	261
	Fund raising expenses paid	(620)	–
	Dividends paid	(1,362)	(872)
	Net cash flow from financing activities	6,737	(1,799)
	Net increase in cash and cash equivalents	8,665	689
	Cash and cash equivalents at start of year	2,751	2,062
22	**Cash and cash equivalents at end of year**	11,416	2,751

Company Cash Flow Statement

FOR THE YEAR ENDED 31 MARCH 2013

Notes		2013 £'000	2012 £'000
	Cash flows from operating activities		
	(Loss) / profit for the year	(1,597)	1,948
	Adjusted for:		
	Net financing costs	64	86
	Amortisation of loan fees	16	16
	Equity-settled share-based payment expenses	52	39
	Impairment in Erebus	3,766	–
	Fund raising expenses	682	–
	Corporation and deferred tax expense	57	16
	Operating cash flow before changes in working capital and provisions	3,040	2,105
	Decrease in trade and other receivables	4	5
	(Decrease) / increase in trade and other payables	(50)	135
	Cash generated from operations	2,994	2,245
	Corporation taxes (paid)	(23)	(22)
	Net cash flow from operating activities	2,971	2,223
	Cash flow from financing activities:		
	Repayment of inter-company borrowing	1,949	(717)
	Repayment of secured loan	(800)	(800)
	Interest paid	(64)	(86)
	Proceeds from the issue of ordinary share capital	9,889	261
	Fund raising expenses paid	(620)	–
	Dividends paid	(1,362)	(872)
	Net cash flow from financing activities	8,992	(2,214)
	Net increase in cash and cash equivalents	11,963	9
	Cash and cash equivalents at start of year	(1,409)	(1,418)
22	Cash and cash equivalents at end of year	10,554	(1,409)

Consolidated Statement of Changes in Shareholders' Equity

FOR THE YEAR ENDED 31 MARCH 2013

Notes	Reconciliation of movement in capital and reserves – Group	Called up share capital £'000	Financial assets fair value revaluation reserve £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	**Total equity £'000**
	Balance as at 1 April 2011	922	8,749	7,618	1,162	12,150	**30,601**
	Profit for the year	–	–	–	–	2,256	**2,256**
	Share-based payments	–	–	–	–	101	**101**
	Dividends	–	–	–	–	(872)	**(872)**
	Issue of shares	8	–	253	–	–	**261**
	Change in fair value of shares in Falkland Oil and Gas Limited	–	(2,540)	–	–	–	**(2,540)**
	Actuarial loss on pension, net of tax	–	–	–	–	(277)	**(277)**
	Effect of tax rate changes on deferred tax asset relating to pension schemes	–	–	–	–	(42)	**(42)**
	Balance as at 31 March 2012	930	6,209	7,871	1,162	13,316	**29,488**
	Profit for the year	–	–	–	–	1,604	**1,604**
	Share based payments granted to employees	–	–	–	–	134	**134**
27	Share based payments on warrants granted to Banque Havilland SA on Fund raising	–	–	–	–	62	**62**
	Dividends	–	–	–	–	(1,362)	**(1,362)**
	Issue of shares	313	–	9,576	–	–	**9,889**
	Change in fair value of shares in Falkland Oil and Gas Limited	–	(4,873)	–	–	–	**(4,873)**
	Transfer to the income statement on sale of shares in FOGL	–	(521)	–	–	–	**(521)**
	Actuarial loss on pension, net of tax	–	–	–	–	(189)	**(189)**
	Effect of tax rate changes on deferred tax asset relating to pension schemes	–	–	–	–	47	**47**
	Balance as at 31 March 2013	1,243	815	17,447	1,162	13,612	**34,279**

Company Statement of Changes in Shareholders' Equity

FOR THE YEAR ENDED 31 MARCH 2013

Notes	Reconciliation of movement in capital and reserves – Company	Called up share capital £'000	Share premium account £'000	Other reserves £'000	Retained earnings £'000	**Total equity £'000**
	Balance as at 1 April 2011	922	7,618	6,910	14,708	**30,158**
	Profit for the year	–	–	–	1,948	**1,948**
	Share based payments	–	–	–	101	**101**
	Dividends	–	–	–	(872)	**(872)**
	Issue of shares	8	253	–	–	**261**
	Balance as at 31 March 2012	930	7,871	6,910	15,885	**31,596**
	Loss for the year	–	–	–	(1,597)	**(1,597)**
	Share based payments granted to employees	–	–	–	134	**134**
27	Share based payments on warrants granted to Banque Havilland SA on Fund raising	–	–	–	62	**62**
	Dividends	–	–	–	(1,362)	**(1,362)**
	Issue of shares	313	9,576	–	–	**9,889**
	Balance as at 31 March 2013	1,243	17,447	6,910	13,122	**38,722**

A loss of £1,597,000 (2012 profit: £1,948,000) has been dealt with in the accounts of the Parent Company. As permitted by Section 408 of the Companies Act 2006, the Company has not presented its individual profit and loss account.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2013

1 Accounting policies

General information

Falkland Islands Holdings plc (the "Company") is a company incorporated and domiciled in the UK.

Reporting entity

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). The Parent Company financial statements present information about the Company as a separate entity and not about its group.

Basis of preparation

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the EU (Adopted IFRS). On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in s408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

The management and development of the Group's property portfolio in the Falkland Islands is a significant part of the Group's trading activity. Associated gains and losses on the disposal of rental properties and property developments are accordingly recognised within gross profit.

Judgements made by the Directors in the application of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment next year are discussed in note 32.

The financial statements are presented in pounds sterling, rounded to the nearest thousand. They are prepared on the historical cost basis except that available-for-sale financial instruments and derivative financial instruments are stated at their fair value.

The Directors are responsible for ensuring that the Group has adequate financial resources to meet its projected liquidity requirements and also for ensuring forecast earnings are sufficient to meet the covenants associated with the Group's banking facilities.

As in prior years the Directors have reviewed the Group's medium term forecasts and considered a number of possible trading scenarios and are satisfied the Group's existing resources (including committed banking facilities) are sufficient to meet its needs. As a consequence the Directors believe the Group is well placed to manage its business risk.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Managing Director's Business Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also described in the Managing Director's Financial Review. In addition, note 28 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The Group has considerable financial resources. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries the Directors have a reasonable expectation that the Company and Group have adequate reserves to continue in operational existence for the foreseeable future, and have continued to adopt the going concern basis in preparing the financial statements.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Falkland Islands Holdings plc and its subsidiaries (the "Group"). A subsidiary is any entity Falkland Islands Holdings plc has the power to control the financial and operating policies of so as to obtain benefits from its activities. The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All intra-company balances and transactions, including unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements.

Investments in subsidiaries not classified as held-for-sale within the Company balance sheet are stated at cost.

1 Accounting policies CONTINUED

Presentation of income statement

Due to the non-prescriptive nature under IFRS as to the format of the income statement, the format used by the Group is explained below.

Operating profit is the pre-finance profit of continuing activities and acquisitions of the Group, and in order to achieve consistency and comparability, is analysed to show separately the results of normal trading performance (underlying profit), individually significant charges and credits, changes in the fair value of derivative financial instruments and amortisation of intangible assets on acquisition. Such items arise because of their size or nature, and in 2013 comprise:

- Expenses incurred on the fund raising;
- The gain on the sale of 1,175,000 FOGL shares;
- The net settlement loss on the disposal of the liabilities in the PHFC pension scheme; and
- The amortisation of intangible assets.

In 2012, this comprised the amortisation of intangible assets.

Foreign currencies

Transactions in foreign currencies are translated to the functional currencies of Group entities at exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated to the functional currency using the relevant rates of exchange ruling at the balance sheet date and the gains or losses thereon are included in the income statement.

Non-monetary assets and liabilities are translated using the exchange rate at the date of the initial transaction.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises purchase price and directly attributable expenses. Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

Freehold buildings	20 – 50 years
Long leasehold land and buildings	50 years
Vehicles, plant and equipment	4 – 10 years
Ships	15 – 30 years

The carrying value of assets and their useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. If an indication of impairment exists, the assets are written down to their recoverable amount and the impairment is charged to the income statement in the period in which it arises.

Freehold land and assets-in-construction are not depreciated.

Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less any accumulated depreciation (calculated on useful economic lives in line with accounting policy, property, plant and equipment above) and any impairment losses.

Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries.

Acquisitions prior to 1 April 2006

In respect to acquisitions prior to transition to IFRS, goodwill is recorded on the basis of deemed cost, which represents the amount recorded under previous Generally Accepted Accounting Principles (GAAP) as at the date of transition. The classification and accounting treatment of business combinations which occurred prior to transition has not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 April 2006. Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Notes to the Financial Statements

CONTINUED

1 Accounting policies CONTINUED

Acquisitions on or after 1 April 2006

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the acquirer's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired business. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised but reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Trade name	20 years
Customer relationships	6 – 10 years
Non-compete agreements	5 years

Computer software

Acquired computer software is capitalised as an intangible asset on the basis of the cost incurred to acquire and bring the specific software into use. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful life of computer software is seven years.

Impairment of non-financial assets

At each reporting date the Group assesses whether there is any indication that an asset may be impaired. Goodwill and intangible assets with indefinite lives are tested for impairment annually. Where an indicator of impairment exists or the asset requires annual impairment testing, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognised in the income statement.

Recoverable amount is the greater of an asset's or cash-generating unit's fair value less cost to sell or value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses are reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Finance income and expense

Net financing costs comprise interest payable, interest receivable, and foreign exchange gains and losses that are recognised in the income statement.

Interest income and interest payable are recognised as a profit or loss as they accrue, using the effective interest method.

Financial instruments

Certain financial instruments held by the Group are classified as being available-for-sale and are stated at fair value, with any resultant gain or loss being recognised in other comprehensive income and presented in the fair value reserve in equity, except for impairment losses. When these items are derecognised, the cumulative gain or loss previously recognised directly in equity is recycled to profit and loss.

Financial instruments classified as available-for-sale are initially recognised at fair value less directly attributable transaction costs.

1 Accounting policies CONTINUED

The Group does not use derivative financial instruments for speculative purposes. Derivative financial instruments are initially measured at fair value. Changes in the fair value of derivative financial instruments are recognised in the income statement as they arise. The Group has not applied hedge accounting to its derivative financial instruments.

Employee share awards

The Group provides benefits to certain employees (including Directors) in the form of share-based payment transactions, whereby the recipient renders service in return for shares or rights over future shares (equity settled transactions). The cost of these equity settled transactions with employees is measured by reference to an estimate of their fair value at the date on which they were granted using an option input pricing model taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options for which the related service and non-market performance conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of share options that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payments is measured to reflect such conditions and there is no true up for differences between expected and actual outcomes.

The cost of equity settled transactions is recognised, together with a corresponding increase in reserves, over the period in which the performance conditions are fulfilled, ending on the date that the option vests.

Where the Company grants options over its own shares to the employees of subsidiaries, it recognises, in its individual financial statements, an increase in the cost of investment in its subsidiaries equal to the equity settled share-based payment charge recognised in its consolidated financial statements with the corresponding credit being recognised directly in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition, as follows:

The cost of raw materials, consumables and goods for resale comprises purchase cost, on a first-in, first-out basis and where applicable includes expenditure incurred in transportation to the Falkland Islands.

Work-in-progress and finished goods cost includes direct materials and labour plus attributable overheads based on a normal level of activity.

Construction-in-progress and properties-held-for-sale relating to the Group's property trading portfolio in the Falkland Islands are stated at the lower of cost and net realisable value.

Net realisable value is estimated at selling price in the ordinary course of business less costs of disposal.

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents the amount receivable by the Group for goods supplied and services rendered in the normal course of business, net of discounts and excluding VAT. Revenue principally arises from retail sales, the provision of ferry services and the provision of storage and transportation services for fine art works. In the Falkland Islands revenue also includes proceeds from property sales, property rental income, insurance commissions, revenues billed for shipping and agency activities and port services. Revenue from sale of goods is recognised at the point of sale or dispatch, whilst that of the ferry, fine art logistics and other services is recognised when the service is provided. Revenue from property sales is recognised on completion.

For fine art exhibition logistical work undertaken the amount of profit attributable to the stage of completion of a contract is recognised when the outcome of the contract can be seen with reasonable certainty, typically upon successful opening. Revenue for such contracts is stated at the cost appropriate to their stage of completion plus attributable profit, less amounts already recognised. Provision is made for losses as soon as they are foreseeable.

Pensions

Defined contribution pension schemes

The Group operates three defined contribution schemes. The assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged to the income statement represents the contributions payable to the schemes in respect to the accounting period.

Notes to the Financial Statements

CONTINUED

1 Accounting policies CONTINUED

Defined benefit pension schemes

During the year to 31 March 2013, the Group also operated two pension schemes providing benefits based on final pensionable pay. The scheme in Portsmouth Harbour Ferry Company Limited was closed and transferred to Legal and General in March 2013. Therefore at the 31 March 2013, the Group has one remaining pension scheme in the Falkland Islands providing benefits based on final pensionable pay, which is unfunded and closed to future accrual.

The Group's net obligation in respect of each defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to its present value; and any unrecognised past service costs and the fair value of the plan assets (at bid price) are deducted. The liability discount rate is the yield at the balance sheet date on AA credit-rated bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the asset recognised is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

The current service cost and costs from settlements and curtailments are charged against operating profit.

Past service costs are spread over the period until the benefit increases vest. Interest charged on the scheme liabilities and the expected return on scheme assets are included in other finance costs.

Actuarial gains and losses are recognised in full in the period in which they arise in the statement of comprehensive income.

Trade and other receivables

Trade receivables are carried at amortised cost, less provision for impairment. Any change in their value through impairment or reversal of impairment is recognised in the income statement.

Trade and other payables

Trade and other payables are stated at their cost less payments made.

Dividends on funds presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as liabilities at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less directly attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Income Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary timing differences are not recognised:

- Goodwill not deductible for tax purposes; and
- Initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profits.
- Temporary differences related to investments in subsidiaries, to the extent that it is probable that they will not reverse in the foreseeable future.

1 Accounting policies CONTINUED

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is recognised at the tax rates that are expected to be applied to the temporary differences when they reverse, based on rates that have been enacted or substantially enacted by the reporting date.

Leased assets

Leases in which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. All other leases are classified as operating leases.

As lessee

Rentals in respect of all operating leases are charged to the income statement on a straight-line basis over the lease term.

As lessor

Assets under hire purchase agreements are shown in the balance sheet under current assets to the extent they are due within one year, and under non-current assets to the extent that they are due after more than one year, and are stated at the value of the net investment in the agreements. The income from such agreements is credited to the income statement each year so as to give a constant rate of return on the funds invested.

Assets held for leasing out under operating leases are included in investment property (where they constitute land and buildings) or in property, plant and equipment (where they do not constitute land and buildings) at cost less accumulated depreciation and impairment losses. Rental income is recognised on a straight-line basis. Lease incentives granted are recognised as an integral part of the total rental income.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period of the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Non-current assets held for sale and discontinued operations

Non-current assets and discontinued operations are classified as held for sale when their carrying values will be recovered principally through sale. They are generally measured at the lower of carrying amount and fair value less costs to sell.

Provisions

Provisions are recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected cash flows at an appropriate pre-tax risk free rate.

New, amended and revised IFRSs and International Financial Reporting Interpretations Committee pronouncements (IFRICs)

There were no amendments or revisions to IFRSs effective for the first time in the year ended 31 March 2013 which had an impact on the consolidated financial statements.

The following amendments and revisions to IFRSs which were effective for the first time in the year ended 31 March 2013 did not have any material impact on the consolidated financial statements:

Amendments and revisions to IFRSs
IFRS 7 Financial Instruments: Disclosures
IAS 12 Income Taxes

Notes to the Financial Statements
CONTINUED

1 Accounting policies CONTINUED

The following IFRSs and amendments and revisions to IFRSs, other than IFRS 9 have been adopted by the EU, and were available for early adoption but have not yet been applied in the preparation of the consolidated financial statements:

New IFRSs	Effective date (accounting periods commencing on or after):
IFRS 9 Financial Instruments	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2014
IFRS 11 Joint Arrangements	1 January 2014
IFRS 12 Disclosure of Interests in Other Entities	1 January 2014
IFRS 13 Fair Value Measurement	1 January 2013
Amendments and revisions to IFRSs	
IAS 1 Presentation of Financial Statements	1 July 2012
IFRS 7 Financial Instruments: Disclosures	1 January 2013
IAS 19 Employee Benefits	1 January 2013
IAS 27 Separate Financial Statements	1 January 2013
IAS 28 Investments in Associates and Joint Ventures	1 January 2013
IAS 32 Financial Instruments: Presentation	1 January 2014
Various Improvements to IFRSs – minor amendments	various

The Directors do not anticipate that the adoption of these new IFRSs and amendments and revisions to IFRSs will have a material impact on the consolidated financial statements in the period of initial application with the exception of IFRS 9, where classification and measurement amendments may be required to assets currently classified as available-for-sale.

2 Segmental analysis

The Group is organised into three operating segments, and information on these segments is reported to the chief operating decision maker ('CODM') for the purposes of resource allocation and assessment of performance. The CODM has been identified as the Board of Directors.

The operating segments offer different products and services and are determined by business type: goods and essential services in the Falkland Islands, the provision of ferry services and art logistics and storage.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

2 Segmental analysis CONTINUED

2013	Goods and essential services (Falklands) £'000	Ferry services (Portsmouth) £'000	Art logistics and storage (UK) £'000	Unallocated £'000	Total £'000
Revenue	15,222	4,076	16,298	–	**35,596**
Segment operating profit before tax and amortisation	1,325	984	1,193	–	**3,502**
Fund raising costs	–	–	–	(682)	**(682)**
Gain on sale of 1.175 million FOGL shares	–	–	–	768	**768**
Net settlement loss on the PHFC pension scheme	–	–	–	(182)	**(182)**
Amortisation	–	–	(398)	–	**(398)**
Segment operating profit	1,325	984	795	(96)	**3,008**
Interest income	246	28	6	–	**280**
Interest expense	(118)	(286)	(87)	–	**(491)**
Segment profit before tax	1,453	726	714	(96)	**2,797**
Assets and liabilities					
Segment assets	15,059	12,792	13,532	14,838	**56,221**
Segment liabilities	(8,664)	(6,650)	(4,597)	(2,031)	**(21,942)**
Segment net assets	6,395	6,142	8,935	12,807	**34,279**
Other segmental information					
Capital expenditure:					
Property, plant, equipment	1,332	223	598	–	**2,153**
Investment properties	262	–	–	–	**262**
Depreciation – property, plant and equipment	466	301	414	–	**1,181**
Depreciation – investment properties	23	–	–	–	**23**
Amortisation	–	–	398	–	**398**
Underlying profit before tax					
Segment operating profit	1,325	984	1,193	–	**3,502**
Interest income	246	28	6	–	**280**
Interest expense	(118)	(286)	(87)	–	**(491)**
Underlying profit before tax	1,453	726	1,112	–	**3,291**

Notes to the Financial Statements

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2 Segmental analysis CONTINUED

2012	Goods and essential services (Falklands) £'000	Ferry services (Portsmouth) £'000	Art logistics and storage (UK) £'000	Unallocated £'000	Total £'000
Revenue	14,979	4,160	14,970	–	34,109
Segment operating profit before tax and amortisation	1,510	1,094	964	–	3,568
Amortisation	–	–	(398)	–	(398)
Segment operating profit	1,510	1,094	566	–	3,170
Interest income	86	33	4	–	123
Interest expense	(142)	(263)	(52)	–	(457)
Segment profit before tax	1,454	864	518	–	2,836
Assets and liabilities					
Segment assets	12,302	12,967	13,550	11,807	50,626
Segment liabilities	(7,006)	(7,060)	(4,261)	(2,811)	(21,138)
Segment net assets	5,296	5,907	9,289	8,996	29,488
Other segmental information					
Capital expenditure:					
Property, plant, equipment	632	5,080	524	–	6,236
Depreciation – property, plant and equipment	425	303	331	–	1,059
Depreciation – investment properties	10	–	–	–	10
Amortisation and goodwill impairment	–	–	398	–	398

Underlying profit before tax					
Segment operating profit	1,510	1,094	964	–	3,568
Interest income	86	33	4	–	123
Interest expense	(142)	(263)	(52)	–	(457)
Underlying profit before tax	1,454	864	916	–	3,234

3 Geographical analysis

The tables below analyse revenue and other information by geography:

2013	United Kingdom £'000	Falkland Islands £'000	Total £'000
Revenue (by source)	20,374	15,222	35,596
Assets and liabilities			
Segment assets	41,162	15,059	56,221
Other segment information			
Capital expenditure	821	1,594	2,415

2012	United Kingdom £'000	Falkland Islands £'000	Total £'000
Revenue (by source)	19,130	14,979	34,109
Assets and liabilities			
Segment assets	38,324	12,302	50,626
Other segment information			
Capital expenditure	647	632	1,279
Assets acquired through finance leases	4,957	–	4,957
Total fixed assets acquired	5,604	632	6,236

4 Revenue

	2013 £'000	2012 £'000
Sale of goods	12,345	11,055
Rendering of services	23,251	22,829
Property sales in the Falkland Islands	–	225
Total revenue	35,596	34,109

Notes to the Financial Statements

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5 Amortisation of intangible assets and non-trading items

	2013 £'000	2012 £'000
Amortisation charge on Momart intangible assets acquired	(398)	(398)
Amortisation charge	(398)	(398)
Profit before tax as reported	2,797	2,836
Adjusted for amortisation	398	398
Fund raising expenses	682	–
Gain on sale of FOGL shares	(768)	–
Net settlement loss on the transfer of the PHFC pension scheme	182	–
Underlying profit before tax	3,291	3,234

6 Expenses and auditor's remuneration

Included in profit / loss are the following expenses / (income):	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Direct operating expenses arising from investment properties which generated rental income in the period	102	114	–	–
Depreciation	1,204	1,069	–	–
Amortisation of intangible assets	398	398	–	–
Foreign currency differences	(153)	(50)	–	–
Impairment loss on trade and other receivables	61	82	–	–
Cost of inventories recognised as an expense	8,368	8,061	–	–
Operating lease payments	773	670	–	–

Auditor's remuneration:

	2013 £'000	2012 £'000
Audit of these financial statements	28	27
and amounts receivable by auditors and their associates in respect of:		
Audit of subsidiaries' financial statements pursuant to legislation	61	62
Other services relating to taxation	37	59
Total auditor's remuneration	126	148

Amounts paid to the Company's auditors and their associates in respect of services to the Company, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

7 Staff numbers and cost

The average number of persons employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees Group		Number of employees Company	
	2013	2012	2013	2012
Ferry services	38	39	–	–
Falklands Islands: in Stanley	123	115	–	–
in UK	5	5	–	–
Art logistics and storage	116	110	–	–
Head office	5	4	5	4
Total average staff numbers	287	273	5	4

The aggregate payroll cost of these persons was as follows:

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Wages and salaries	8,747	7,968	583	500
Share-based payments (see note 26)	196	101	52	39
Social security costs	802	749	76	71
Contributions to defined contribution plans	222	229	8	31
Total employment costs	9,967	9,047	719	641

Details of Directors' remuneration are provided in the Directors' Report, under the heading "Details of Directors' Remuneration and Emoluments".

8 Finance income and expense

	2013 £'000	2012 £'000
Bank interest receivable	164	5
Finance lease interest receivable	91	89
Expected return on pension scheme assets	25	29
Total financial income	280	123
Interest payable on bank loans	(85)	(115)
Interest cost on pension scheme liabilities	(134)	(138)
Amortisation of loan fees	(16)	(16)
Finance lease interest payable	(256)	(188)
Total financial expense	(491)	(457)
Net financing cost	(211)	(334)

Notes to the Financial Statements

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8 Finance income and expense CONTINUED

	2013 £'000	2012 £'000
Bank interest receivable	164	5
Interest payable on bank loans	(85)	(115)
Net bank interest	79	(110)
Other financing charges (from above)	(290)	(224)
Net financing cost	(211)	(334)

9 Taxation

Recognised in the income statement

	2013 £'000	2012 £'000
Current tax expense:		
Current year	665	842
Adjustments for prior years	(74)	23
Current tax expense	591	865
Deferred tax expense:		
Origination and reversal of temporary differences	620	(2)
Reduction in tax rate	(60)	(112)
Adjustments for prior years	42	(171)
Deferred tax expense / (credit)	602	(285)
Total tax expense	1,193	580

Reconciliation of effective tax rate

	2013 £'000	2012 £'000
Profit on ordinary activities before tax	2,797	2,836
Tax using the UK corporation tax rate of 24% *(2012: 26%)*	671	737
Expenses not deductible for tax purposes	53	119
Non taxable income on disposals	–	(1)
Deduction in respect of exercised stock options	(6)	(10)
Marginal relief	(1)	–
Effect of higher tax rate overseas	4	(5)
Reduction in deferred tax rate	(60)	(112)
Deferred tax arising on change in tax regime	564	–
Adjustments to tax charge in respect of previous years	(32)	(148)
Total tax expense	1,193	580

9 Taxation CONTINUED

In prior periods a subsidiary was covered by the taxation regimes of both the UK and the Falkland Islands. It accounted for deferred tax on the basis of the UK tax regime, and therefore no deferred tax liability in respect of property was required to be recognised. In the current year the Falkland Islands Company Limited is required to account for deferred tax under the Falkland Islands tax regime. Under this regime the Group is now entitled to writing down allowances which, whilst being a benefit, necessitate the recognition of deferred tax liabilities.

Tax recognised directly in other comprehensive income

	2013 £'000	2012 £'000
Deferred tax recognised directly in other comprehensive income	**(108)**	(45)
Total tax credit recognised directly in other comprehensive income	**(108)**	(45)

Factors affecting the future tax charges

The 2013 budget on 20 March 2013 announced that the UK corporation tax rate will be reduced to 21% from 1 April 2014 and to 20% from 1 April 2015. The 2012 budget announced that the UK rate of corporation tax would be reduced to 23% from 1 April 2013. This announcement was substantively enacted in July 2012.

The deferred tax asset at 31 March 2013 has been calculated based on the rate of 23% substantively enacted at the balance sheet date, with the Falklands tax rate of 26% applied to all Falkland Islands assets and liabilities.

It has not yet been possible to quantify the full anticipated effect of the announced reductions, although this will further reduce the Group and Company deferred tax assets and liabilities accordingly.

10 Earnings per share

The calculation of basic earnings per share is based on profits on ordinary activities after taxation, and the weighted average number of shares in issue in the period, excluding shares owned by the Employee Share Ownership Plan (ESOP) (see note 27).

The calculation of diluted earnings per share is based on profits on ordinary activities after taxation, and the weighted average number of shares in issue in the period, excluding shares owned by the ESOP, adjusted to assume the full issue of share options outstanding, to the extent that they are dilutive.

	2013 £'000	2012 £'000
Profit on ordinary activities after taxation	**1,604**	2,256

	2013 Number	2012 Number
Weighted average number of shares in issue	**11,612,626**	9,227,351
Less: shares owned by the ESOP	**(38,364)**	(36,499)
Average number of shares in issue excluding the ESOP	**11,574,262**	9,190,852
Maximum dilution with regards to share options	**129,600**	48,205
Diluted weighted average number of shares	**11,703,862**	9,239,057

Notes to the Financial Statements

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10 Earnings per share CONTINUED

	2013	2012
Basic earnings per share	13.9p	24.5p
Diluted earnings per share	13.7p	24.4p

To provide a comparison of earnings per share on underlying performance, the calculation below sets out basic and diluted earnings per share based on underlying profits.

Earnings per share on underlying profit	2013 £'000	2012 £'000
Underlying profit before tax (see note 5)	3,291	3,234
Taxation	(796)	(817)
Underlying profit after tax	2,495	2,417
Effective tax rate on underlying profits	24.2%	25.3%
Weighted average number of shares in issue excluding ESOP (from above)	11,574,262	9,190,852
Diluted weighted average number of shares (from above)	11,703,862	9,239,057
Basic earnings per share on underlying profit	21.6p	26.3p
Diluted earnings per share on underlying profit	21.3p	26.2p

11 Intangible assets

	Group				
	Customer relationships £'000	Brand names £'000	Non-compete Agreements £'000	Goodwill £'000	Total £'000
Cost:					
At 1 April 2011	1,882	2,823	72	11,539	16,316
At 31 March 2012 and 31 March 2013	1,882	2,823	72	11,539	16,316
Accumulated amortisation:					
At 1 April 2011	746	433	43	1,983	3,205
Amortisation for the year	243	141	14	–	398
At 31 March 2012	989	574	57	1,983	3,603
Amortisation for the year	243	141	14	–	398
At 31 March 2013	1,232	715	71	1,983	4,001
Net book value:					
At 31 March 2011	1,136	2,390	29	9,556	13,111
At 31 March 2012	893	2,249	15	9,556	12,713
At 31 March 2013	650	2,108	1	9,556	12,315

Amortisation and impairment charges are recognised in operating expenses in the income statement.

Customer relationships – are on-going relationships, both contractual and otherwise, with customers considered to be of future economic benefit to the Group with estimated economic lives of 6 – 10 years.

11 Intangible assets CONTINUED

Brand names – the Momart brand is considered to be of future economic value to the Group with an estimated useful economic life of 20 years.

Non-compete agreements – are contractually binding agreements with senior Momart personnel not to compete with the Group for five years in the event of their leaving the Group's service.

Goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) which principally comprise its business segments. A segment level summary of goodwill is shown below:

	Art logistics and storage £'000	Ferry services (Portsmouth) £'000	**Total £'000**
Balance at 1 April 2011	5,577	3,979	**9,556**
Balance at 31 March 2012	5,577	3,979	**9,556**
Balance at 31 March 2013	5,577	3,979	**9,556**

Impairment

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. An impairment test is a comparison of the carrying value of the assets of a CGU, based on a value-in-use calculation, to their recoverable amounts. Where the recoverable amount is less than the carrying value an impairment results. During the year the goodwill for each CGU was separately assessed and tested for impairment, with no impairment charges resulting *(2012: nil)*.

As part of testing goodwill for impairment detailed forecasts of operating cash flows for the next five years are used, which are based on approved budgets and plans by the Board of Falkland Islands Holdings plc. These forecasts represent the best estimate of future performance of the CGUs based on past performance and expectations for the market development of the CGU.

A number of key assumptions are used as part of impairment testing. These key assumptions are made by management reflecting past experience combined with their knowledge as to future performance and relevant external sources of information. Sensitivity analysis as at 31 March 2013 has indicated that no reasonably foreseeable change in the key assumptions used in the impairment model would result in a significant impairment charge being recorded in the financial statements.

Discount rates

Within impairment testing models cash flows of the Art Logistics and Storage CGU has been discounted using a pre-tax discount rate of 14.1% *(2012: 13.6%)*, and the cash flows of the Ferry Services has been discounted using a pre-tax discount rate of 12.9% *(2012: 13.6%)*. Management have determined that each rate is appropriate as the risk adjustment applied within the discount rate reflects the risks and rewards inherent to each CGU, based on the industry and geographical location it is based within. Ferry Services has a lower pre tax discount rate as this better reflects the annuity nature of the business.

Long term growth rates

Long term growth rates of 2% have been used for all CGUs as part of the impairment testing models. This growth rate does not exceed the long term average growth rate for the UK, in which the CGUs operate. For both Ferry Services and Art Logistics and Storage, the future cashflows are based on the latest budgets and business plans, which take account of known business conditions, and are therefore consistant with past experience.

Other assumptions

Other assumptions used within impairment testing models include an estimation of long term effective tax rate for the CGUs.

The long-term effective rate of tax is consistent with the current UK tax rate.

The terminal value is calculated based on the Gordon Growth model.

Notes to the Financial Statements

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11 Intangible assets CONTINUED

Sensitivity to changes in assumptions

Using a discounted cash flow methodology necessarily involves making numerous estimates and assumptions regarding growth, operating margins, tax rates, appropriate discount rates, capital expenditure levels and working capital requirements. These estimates will likely differ from future actual results of operations and cash flows, and it is possible that these differences could be material. In addition, judgements are applied by the Directors in determining the level of cash generating units and the criteria used to determine which assets should be aggregated. A difference in testing levels could further affect whether an impairment is recorded and the extent of impairment loss.

Assumptions specific to ferry services (Portsmouth)

Value in use was determined by discounting future cash flows in line with the other assumptions discussed above. Management have forecast consistent growth in cash flows of 2% in both the short and long term. The value in use was determined to exceed the carrying amount and no impairment has been recognised *(2012: £nil)*. It is not considered that a reasonably possible change in any of these assumptions would generate a different impairment test outcome to the one included in this annual report. The key assumptions made in the estimation of future cashflows are the passenger numbers and the average revenue per passenger.

Assumptions specific to arts logistics and storage (UK)

Value in use was determined by discounting future cash flows in line with the other assumptions as discussed above. Cash flows were projected based on approved budgets and plans which foresee growth rates in excess of 10% over the forecast period. The long term growth rate is projected to be 2% thereafter. The carrying value of the unit was determined to not be higher than its recoverable amount and no impairment was recognised *(2012: nil)*. It is not considered that a reasonably possible change in any of these assumptions would generate a different impairment test outcome to the one included in this annual report. The key assumptions made in the estimation of future cashflows are in relation to revenue.

12 Property, plant and equipment

	Group				
	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Ships £'000	Vehicles, plant and equipment £'000	**Total £'000**
Cost:					
At 1 April 2011	4,140	964	3,309	5,688	**14,101**
Additions in year	40	5,196	23	977	**6,236**
Transfer from investment properties		292			**292**
Disposals	–	–	–	(42)	**(42)**
At 31 March 2012	4,180	6,452	3,332	6,623	**20,587**
Additions in year	382	146	201	1,424	**2,153**
Transfer to investment properties	(218)	–	–	–	**(218)**
Disposals	–	(149)	–	(373)	**(522)**
At 31 March 2013	4,344	6,449	3,533	7,674	**22,000**
Accumulated depreciation:					
At 1 April 2011	1,671	315	811	3,815	**6,612**
Charge for the year	108	181	143	627	**1,059**
Transfer from investment properties	–	35	–	–	**35**
Disposals	–	–	–	(30)	**(30)**
At 31 March 2012	1,779	531	954	4,412	**7,676**
Charge for the year	116	232	138	695	**1,181**
Transfer to investment properties	(133)	–	–	–	**(133)**
Disposals	–	(94)	–	(355)	**(449)**
At 31 March 2013	1,762	669	1,092	4,752	**8,275**
Net book value:					
At 1 April 2011	2,469	649	2,498	1,873	**7,489**
At 31 March 2012	2,401	5,921	2,378	2,211	**12,911**
At 31 March 2013	2,582	5,780	2,441	2,922	**13,725**

The Company has no tangible fixed assets.

At 31 March 2013 the net carrying amount of leased long leasehold land and buildings and vehicles, plant and equipment was £4,783,000 and £397,000 respectively *(2012: £4,881,000 and £382,000)*. During the year to 31 March 2013 the Group acquired leased assets of £122,000 *(2012: £5,217.000)*.

Notes to the Financial Statements

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13 Investment properties

	Group		
	Residential and commercial property £'000	Freehold land £'000	**Total £'000**
At 1 April 2011	1,101	720	**1,821**
Transfer to long leasehold	(292)	–	**(292)**
Disposals	–	(2)	**(2)**
At 31 March 2012	809	718	**1,527**
Transfer from freehold land and buildings	163	55	**218**
Transfer from properties held as stock	1,010	–	**1,010**
Additions	262	–	**262**
At 31 March 2013	2,244	773	**3,017**
Accumulated depreciation:			
At 1 April 2011	100	–	**100**
Charge for the year	10	–	**10**
Transfer to long leasehold	(35)	–	**(35)**
At 31 March 2012	75	–	**75**
Charge for the year	23	–	**23**
Transfer from freehold land and buildings	133	–	**133**
At 31 March 2013	231	–	**231**
Net book value:			
At 1 April 2011	1,001	720	**1,721**
At 31 March 2012	734	718	**1,452**
At 31 March 2013	2,013	773	**2,786**

The investment properties comprise residential and commercial property held for rental in the Falkland Islands. These together with the land have a net book value of £2,786,000 (2012: £1,452,000). Investment properties include 400 acres of land, including 70 acres of land in Stanley, 58 acres of which have planning permission. In addition, the Group has 300 acres of land at Fairy Cove, adjacent to the site of the intended deep water port at Port William. These investment properties owned by FIC have been reviewed by a Director of FIC who is a Chartered Surveyor and is resident in the Falkland Islands using guidelines provided by the Royal Institution of Chartered Surveyors (RICS) (Red Book). At 31 March 2013 the fair value of this property portfolio was estimated at £5.7 million (31 March 2012: £3.9 million) including development land valued at £2.3 million (2012: £1.7 million). This valuation includes £1.5 million for the Marmont Row properties transferred in from stock at the £1,010,000 net book value during the year. As oil development proceeds, the value of these properties is expected to increase significantly.

During the year to 31 March 2013, the Group received rental income of £296,000 (2012: £344,000) on these properties.

The Company does not own any investment properties.

14 Investments in subsidiaries

The Group and Company have the following direct and indirect investments in subsidiaries:

	Country of incorporation	Class of shares owned	Ownership % 2013	Ownership % 2012
The Falkland Islands Company Limited	UK	Ordinary shares of £1	100%	100%
		Preference shares of £10	100%	100%
The Falkland Islands Trading Company Limited	UK	Ordinary shares of £1	100%	100%
Falkland Islands Shipping Limited*	Falkland Islands	Ordinary shares of £1	100%	100%
Erebus Limited*	Falkland Islands	Ordinary shares of £1	100%	100%
		Preference shares of £1	100%	100%
Paget Limited*	Falkland Islands	Ordinary shares of £1	100%	100%
The Portsmouth Harbour Ferry Company Limited	UK	Ordinary shares of £1	100%	100%
Portsea Harbour Company Limited*	UK	Ordinary shares of £1	100%	100%
Clarence Marine Engineering Limited*	UK	Ordinary shares of £1	100%	100%
Gosport Ferry Limited*	UK	Ordinary shares of £1	100%	100%
Momart International Limited	UK	Ordinary shares of £1	100%	100%
Momart Limited*	UK	Ordinary shares of £1	100%	100%
Dadart Limited*	UK	Ordinary shares of £1	100%	100%

* These investments are not owned directly by the Company but are indirect investments owned by a subsidiary of the Company.

Company investments in Group undertakings

	Company 2013 £'000	Company 2012 £'000
Balance brought forward	**31,488**	31,426
Impairment of investment in Erebus Limited	**(2,457)**	–
Decrease in cost of investment in Momart	**(16)**	–
Cost of share-based payments recognised in subsidiaries	**82**	62
Total investment in Group undertakings	**29,097**	31,488

The Company's investment in Erebus Limited comprises the Group's shareholding in Falkland Oil and Gas Limited (see note 15).

Notes to the Financial Statements

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15 Shares held in Falkland Oil and Gas Limited – available-for-sale equity securities

	2013	2012
Available-for-sale equity securities £'000	**3,399**	9,030
Falkland Oil and Gas share price	**26.5p**	64.5p
Shareholding at 31 March	**12,825,000**	14,000,000
Group interest in FOGL	**4.0%**	4.4%
Historic cost of shareholding to the Group £'000	**2,586**	2,823
Cost per share	**20p**	20p

16 Investment in Joint Ventures

In June 2012, a joint venture (South Atlantic Construction Company Limited, "SATCO") was set up with Trant Construction to bid for the larger infrastructure contracts which are expected to be generated by oil activity. Both Trant Construction and Falkland Islands Company have contributed £50,000, and the expenditure in the year has been negligible.

17 Non-current assets held-for-sale

	Group	
	2013 £'000	2012 £'000
Non-current assets held-for-sale	**20**	20

Non-current assets held-for-sale comprise certain items of artwork accumulated by Momart International Limited prior to acquisition. The assets were recognised at estimated fair value on acquisition and as a result no gain or loss arose on their being classified as held-for-sale.

18 Other financial assets

Finance lease receivables relate to finance leases on the sale of vehicles and customer goods. No allowances for uncollectible minimum lease payments have been deemed necessary. No contingent rents have been recognised as income in the period. No residual values accrue to the benefit of the lessor.

	Group	
	2013 £'000	2012 £'000
Non-current:		
Finance lease debtors due after more than one year	**121**	150
Current:		
Finance lease debtors due within one year	**486**	385
Total other financial assets	**607**	535

The difference between the gross investment in the hire purchase leases and the present value of future lease payments due represents unearned finance income of £59,000 *(2012: £58,000)*.

The cost of assets acquired for the purpose of letting under hire purchase agreements by the Group during the period amounted to £635,000 *(2012: £675,000)*.

18 Other financial assets CONTINUED

The aggregate rentals receivable during the year in respect of hire purchase agreements were £599,000 *(2012: £473,000)*.

	Group	
	2013 £'000	2012 £'000
Gross investment in hire purchase leases	**666**	593
Present value of future lease payments due:		
within 1 year	**486**	385
after more than 1 year within 5 years	**121**	150
	607	535

19 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

	Group			
	Assets		Liabilities	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Property, plant and equipment	**–**	34	**1,254**	622
Intangible assets	**–**	–	**635**	758
Inventories	**96**	75	**–**	–
Other financial liabilities	**54**	83	**–**	–
Share-based payments	**45**	66	**–**	–
Pension	**671**	593	**–**	–
Tax assets / liabilities	**866**	851	**1,889**	1,380
Net of tax assets			**(866)**	(851)
Net tax liabilities			**1,023**	529

The deferred tax asset shown as a non-current asset in the balance sheet relates to the Group's pension scheme liabilities (see note 25). All other deferred tax assets are netted off against the non-current deferred tax liability shown in the balance sheet.

	Company			
	Assets		Liabilities	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Other temporary differences	**4**	5	**–**	–
Net tax asset	**4**	5	**–**	–

Notes to the Financial Statements

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19 Deferred tax assets and liabilities CONTINUED

Movement in deferred tax in the year

	Group			
	1 April 2012 £'000	Recognised in income £'000	Recognised in equity £'000	**31 March 2013 £'000**
Property, plant and equipment	588	666	–	**1,254**
Intangible assets	758	(123)	–	**635**
Inventories	(75)	(21)	–	**(96)**
Other financial liabilities	(83)	29	–	**(54)**
Share-based payments	(66)	21	–	**(45)**
Pension	(593)	30	(108)	**(671)**
Deferred tax movements	529	602	(108)	**1,023**

Unrecognised deferred tax assets

A deferred tax asset of £132,000 *(2012: £132,000)* in respect of capital losses have not been recognised as it is not considered more likely than not that there will be suitable taxable profits in the foreseeable future from which the underlying capital losses will reverse.

	Company			
	1 April 2012 £'000	Recognised in income £'000	Recognised in equity £'000	**31 March 2013 £'000**
Other temporary differences	5	(1)	–	**4**
Deferred tax movements	5	(1)	–	**4**

Movement in deferred tax in the prior year

	Group			
	1 April 2011 £'000	Recognised in income £'000	Recognised in equity £'000	**31 March 2012 £'000**
Property, plant and equipment	689	(101)	–	**588**
Intangible assets	995	(237)	–	**758**
Inventories	(113)	38	–	**(75)**
Other financial liabilities	(119)	36	–	**(83)**
Share-based payments	(39)	(27)	–	**(66)**
Pension	(554)	6	(45)	**(593)**
Deferred tax movements	859	(285)	(45)	**529**

	Company			
	1 April 2011 £'000	Recognised in income £'000	Recognised in equity £'000	**31 March 2013 £'000**
Other temporary differences	8	(3)	–	**5**
Deferred tax movements	8	(3)	–	**5**

20 Inventories

	Group 2013 £'000	Group 2012 £'000
Work-in-progress	202	210
Goods-in-transit	609	565
Goods for resale	4,288	3,216
Trading inventories	5,099	3,991
Property inventories	–	1,010
Total inventories	5,099	5,001

Goods-in-transit are retail goods in transit to the Falkland Islands.

The Company has no inventories.

21 Trade and other receivables

	Company 2013 £'000	Company 2012 £'000
Non-current:		
Amount owed by subsidiary undertakings	1,709	4,925

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Current:				
Trade and other receivables	4,960	4,512	–	–
Prepayments and accrued income	1,173	1,108	21	25
Trade and other receivables	6,133	5,620	21	25

22 Cash and cash equivalents / bank overdrafts

	Group 2013 £'000	Group 2012 £'000	Company 2013 £'000	Company 2012 £'000
Cash and cash equivalents in the balance sheet and cash flow statement	11,416	2,751	10,554	(1,409)

Notes to the Financial Statements

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23 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group and Company's interest-bearing loans and borrowings, which are stated at amortised cost. For more information regarding the maturity of the Group and Company's interest-bearing loans and borrowings and about the Group and Company's exposure to interest rate and foreign currency risk, see note 28.

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Non-current liabilities:				
Secured bank loans	1,003	1,987	769	1,553
Finance lease liabilities	5,136	5,158	–	–
Total non-current interest-bearing loans and borrowings	6,139	7,145	769	1,553
Current liabilities:				
Current portfolio of secured bank loans	1,000	1,000	800	800
Finance lease liabilities	149	140	–	–
Total current interest-bearing loans and borrowings	1,149	1,140	800	800

Net debt

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Total interest-bearing loans and borrowings	7,288	8,285	1,569	2,353
Less: cash balances (see note 22)	(11,416)	(2,751)	(10,554)	1,409
Net (cash) / debt	(4,128)	5,534	(8,985)	3,762

24 Trade and other payables

	Company	
	2013 £'000	2012 £'000
Non-current:		
Amount owed to subsidiary undertakings	582	556

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Current:				
Trade payables	6,031	5,759	–	–
Other creditors, including taxation and social security	825	679	58	74
Accruals and deferred income	3,156	2,315	403	437
Total trade and other payables	10,012	8,753	461	511

25 Employee benefits: pension plans

The Group operates three defined contribution pension schemes. In addition, it also operates two defined benefit pension schemes, both of which have been closed to new members and to future accrual. In March 2013, the PHFC scheme was closed and the Group transferred all liabilities in respect of the Portsmouth Harbour defined benefit scheme to Legal and General.

Defined contribution schemes

The Group operates three defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Group to the schemes and amounted to £222,000 *(2012: £229,000)*. The Group anticipates paying contributions amounting to £240,000 during the year ending 31 March 2013.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

Defined benefit pension schemes

A summary of the fair value of the net pension schemes deficit is set out below:

	2013 £'000	2012 £'000
Pension scheme deficit:		
Falkland Islands Company Limited Scheme	**(2,584)**	(2,411)
Portsmouth Harbour Ferry Company Limited Scheme	**–**	(59)
	(2,584)	(2,470)
Deferred tax	**671**	593
Net pension scheme deficit	**(1,913)**	(1,877)

The Falkland Islands Company Limited Scheme

The Falkland Islands Company Limited operates a defined benefit pension scheme for certain employees which is unfunded and was closed to new members in 1988. This scheme was closed to further accrual on 31 March 2007. Benefits are payable on retirement at the normal retirement age.

Actuarial reports for IAS 19 purposes as at 31 March 2013, 31 March 2012, 31 March 2011, 31 March 2010 and 31 March 2009 were prepared by a qualified independent actuary, Lane Clark & Peacock LLP. The major assumptions used in this valuation were:

	2013	2012
Rate of increase in salaries	**2.6%**	2.5%
Rate of increase in pensions in payment and deferred pensions	**3.0%**	3.0%
Discount rate applied to scheme liabilities	**4.3%**	4.7%
Inflation assumption	**3.4%**	3.2%

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Notes to the Financial Statements

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25 Employee benefits: pension plans CONTINUED

Scheme liabilities

The present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2013 £'000	Value at 2012 £'000	Value at 2011 £'000	Value at 2010 £'000	Value at 2009 £'000
Present value of scheme liabilities	(2,584)	(2,411)	(2,107)	(2,013)	(1,797)
Related deferred tax asset	671	579	548	558	449
Net pension liability	(1,913)	(1,832)	(1,559)	(1,455)	(1,348)

Movement in deficit during the year:

	2013 £'000	2012 £'000
Deficit in scheme at beginning of the year	(2,411)	(2,107)
Pensions paid	111	98
Other finance costs	(111)	(113)
Actuarial loss	(173)	(289)
Deficit in scheme at end of the year	(2,584)	(2,411)

Analysis of amounts included in other finance costs:

	2013 £'000	2012 £'000
Interest on pension scheme liabilities	(111)	(113)

Analysis of amount recognised in statement of comprehensive income:

	2013 £'000	2012 £'000
Experience losses arising on scheme liabilities	(34)	(30)
Changes in assumptions underlying the present value of scheme liabilities	(139)	(259)
Actuarial loss recognised in statement of comprehensive income	(173)	(289)

25 Employee benefits: pension plans CONTINUED

History of experience gains and losses:

	2013	2012	2011	2010	2009
Experience (losses) / gains on scheme liabilities:					
Amount (£'000)	(34)	(30)	(7)	89	(2)
Percentage of year end present value of scheme liabilities	1.3%	1.2%	0.3%	(4.4%)	0.1%
Total amount recognised in statement of comprehensive income:					
Amount (£'000)	(173)	(289)	(82)	(195)	50
Percentage of year end present value of scheme liabilities	6.7%	12.0%	3.9%	9.7%	(2.8%)
Payments to pensioners (£'000)	111	98	98	98	135

Portsmouth Harbour Ferry Company Plc Scheme

This Company operated a defined benefit scheme. The scheme has been closed for many years and none of the current employees are earning benefits under the scheme. This scheme has been closed and all pension obligations transferred to Legal and General at 7 March 2013. Actuarial reports for IAS 19 purposes for the 7 March date of transfer were prepared by a qualified independent actuary, JLT Benefit Solutions.

The major assumptions used in the valuations were:

	2013	2012
Rate of increase in pensions in payment and deferred pensions	3.4%	3.2%
Discount rate applied to scheme liabilities	4.3%	4.7%
Inflation assumption	3.4%	3.2%

The assumptions used by the actuary are chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Notes to the Financial Statements

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25 Employee benefits: pension plans CONTINUED

Scheme assets

The fair value of the scheme's assets, which for the years ending 31 March 2009 to 31 March 2012 were not intended to be realised in the short term and therefore may have been subject to significant change should they have been realised, and the present value of the scheme's liabilities, which, for the years ended 31 March 2009 to 31 March 2012 were derived from cash flow projections over long periods and thus inherently uncertain, were:

	Value at 2013 £'000	Value at 2012 £'000	Value at 2011 £'000	Value at 2010 £'000	Value at 2009 £'000
Equities	–	286	301	328	185
Fixed interest	–	145	101	64	50
Other	–	29	30	18	18
Total market value of assets	–	460	432	410	253
Present value of scheme liabilities	–	(519)	(455)	(634)	(492)
Deficit in the scheme	–	(59)	(23)	(224)	(239)
Related deferred tax asset	–	14	6	63	67
Net pension liability	–	(45)	(17)	(161)	(172)

The expected rates of return on the assets in the scheme were:

	Long term rate of return 2013	Long term rate of return 2012
Equities	–	6.5%
Fixed interest	–	4.7%
Other	–	0.5%

25 Employee benefits: pension plans CONTINUED

Movement in deficit during the year:

	2013 £'000	2012 £'000
Projected benefit obligations:		
Opening projected benefit obligations	(519)	(455)
Interest thereon	(23)	(25)
Distributions	56	13
Actuarial loss	(44)	(52)
Liabilities discharged on settlement	530	–
Projected benefit obligations at 31 March	–	(519)
Plan assets:		
Opening plan assets	460	432
Distributions	(56)	(13)
Contributions	316	35
Return on assets	25	29
Actuarial loss	(33)	(23)
Assets discharged on settlement	(712)	–
Plan assets at 31 March	–	460
Deficit in scheme at 31 March	–	(59)

Analysis of amounts included in other finance costs:

	2013 £'000	2012 £'000
Expected return on pension scheme assets	25	29
Interest on pension scheme liabilities	(23)	(25)
Included in other finance costs	2	4

Analysis of amounts included in other operating expenses:

	2013 £'000	2012 £'000
Net settlement loss on the transfer of the PHFC pension scheme	(182)	–
Included in other operating expenses	(182)	–

Notes to the Financial Statements

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25 Employee benefits: pension plans CONTINUED

Analysis of amount recognised in statement of comprehensive income:

	2013 £'000	2012 £'000
Actual return less expected return on scheme assets	**(33)**	(23)
Changes in assumptions underlying the present value of scheme liabilities	**(44)**	(52)
Actuarial loss recognised in statement of comprehensive income	**(77)**	(75)

History of experience gains and losses:

	2013	2012	2011	2010	2009
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	**(33)**	(23)	(8)	86	(99)
Percentage of year end scheme assets	–	(5.0%)	(1.9%)	21.0%	(39.1%)
Experience gains and losses on scheme liabilities:					
Amount (£'000)	–	–	–	(1)	–
Percentage of year end present value of scheme liabilities	–	–	–	0.2%	–
Total amount recognised in statement of comprehensive income:					
Amount (£'000)	**(77)**	(75)	(10)	(55)	(86)
Percentage of year end present value of scheme liabilities	–	14.5%	2.2%	8.7%	17.4%

26 Employee benefits: share-based payments

The following options were outstanding at 31 March 2013:

Date of issue	Number	Exercise price £	Share price at grant date £	Fair value per share £	Total fair value £	Earliest exercise date	Latest exercise date
10 Feb 05	57,692	520.0	520.0	247.0	142,499	10 Feb 08	9 Feb 15
14 Jun 05	42,500	425.0	425.0	166.0	70,550	14 Jun 08	13 Jun 15
14 Jun 05	63,528	425.0	425.0	214.0	135,950	14 Jun 08	13 Jun 15
7 Aug 07	27,517	330.0	332.5	73.0	20,087	7 Aug 10	6 Aug 17
4 Dec 07	12,500	319.0	340.0	119.0	14,875	4 Dec 10	3 Dec 17
3 Apr 08	3,781	365.0	375.0	131.0	4,953	3 Apr 11	2 Apr 18
8 Apr 09	86,634	207.5	207.5	56.0	48,515	8 Apr 12	7 Apr 19
15 Jul 09	98,224	290.0	290.0	72.0	70,721	15 Jul 12	14 Jul 19
9 Dec 09	25,000	390.0	397.5	145.0	36,250	9 Dec 12	8 Dec 19
21 Dec 10	100,000	342.5	337.5	124.0	124,000	21 Dec 13	20 Dec 20
28 Apr 11	6,390	313.0	313.0	106.0	6,773	28 Apr 14	28 Apr 21
27 Jun 11	30,678	302.5	303.5	94.0	28,837	27 Jun 14	27 Jun 21
16 Dec 11	142,190	267.5	261.5	68.0	96,689	16 Dec 14	16 Dec 21
13 Aug 12	138,581	404.0	404.0	92.0	127,495	13 Aug 15	12 Aug 22
13 Aug 12	14,851	404.0	404.0	117.0	17,376	13 Aug 15	12 Aug 22
18 Dec 12	11,278	332.5	332.5	92.0	10,376	18 Dec 15	18 Dec 22
	861,344				955,946		

The total number of options outstanding at 31 March 2012 was 730,510. A reconciliation of the movement in options is shown below.

The fair values of the options are estimated at the date of grant using appropriate option pricing models and are charged to the profit and loss account over the expected life of the options. The following table gives the assumptions made in determining the fair value of the unvested options. Expected volatility is determined by reference to past performance of the Company's share price.

	21 Dec 10	28 Apr 11	27 Jun 11	16 Dec 11	13 Aug 12	18 Dec 12
Expected volatility (%)	44	40	40	39	39	39
Risk-free interest rate (%)	2.90	2.94	2.53	1.42	0.97	1.31
Expected life of options (years)	6.5	6.5	6.5	6.5	6.5	6.5
Dividend yield (%)	2.40	2.60	3.10	3.60	2.70	3.31
Share price at grant date (£)	337.5	313.0	303.5	261.5	404.0	332.5

Share options issued without share price conditions attached have been valued using the Black-Scholes model. Share price options issued with share price conditions attached have been valued using a Monte Carlo simulation model making explicit allowance for share price targets.

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26 Employee benefits: share-based payments CONTINUED

During the year ended 31 March 2013, 14,219 options *(2012: 77,153)* were exercised over ordinary shares.

The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price (£) 2013	Number of options 2013	Weighted average exercise price (£) 2012	Number of options 2012
Outstanding at the beginning of the year	3.28	730,510	3.40	761,090
Forfeited during the year	3.40	(19,657)	3.34	(61,069)
Exercised during the year	2.08	(14,219)	3.39	(77,153)
Granted during the year	3.99	164,710	2.77	195,828
Lapsed during the year	–	–	3.37	(88,186)
Outstanding at the year end	3.43	861,344	3.28	730,510
Vested options exercisable at the year end	3.50	417,376	4.30	221,299

27 Capital and reserves

Share capital

	Ordinary shares of 10p each	
	2013	2012
Issued at 1 April	9,297,567	9,220,414
Shares issued in fund raising	3,119,837	–
Save as you earn and Share options exercised during the year	14,219	77,153
Issued at 31 March – fully paid	12,431,623	9,297,567

	2013 £'000	2012 £'000
Allotted, called up and fully paid		
Ordinary shares of 10p each	1,243	930

By special resolution at an Annual General Meeting on 9 September 2010 the Company adopted new articles of association principally to take account of the various changes in company law brought in by the Companies Act 2006. As a consequence the Company no longer has an authorised share capital.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

During the year the Group issued 3,119,837 shares by means of a placing and open offer at 320 pence per share to raise £10.0 million before expenses to provide funds to invest in the Group's businesses in the Falkland Islands. In addition 14,219 share options were exercised *(2012: 77,153)*.

On 31 March 2000, an Employee Share Ownership Plan was established. At 31 March 2013 the plan owned 39,021 *(2012: 36,499)* ordinary shares at a cost of £76,612 *(2012: £68,542)*. The market value of the shares at 31 March 2013 was £129,745 *(2012: £133,769)*. Shares owned by the ESOP receive a nominal 0.01p per share in each dividend payment, as in prior years.

For more information on share options please see note 26.

27 Capital and reserves CONTINUED

The other reserves in the Group and the Company comprise largely of merger relief arising in connection with the acquisition of Momart International Limited. These have been offset by a recognised impairment of Momart in the year ending 31 March 2009.

Warrants issued to Banque Havilland SA

In July 2012, 100,000 warrants to subscribe for one ordinary share were granted to Banque Havilland SA, which can be exercised at a price of £5 per share at any date from the date of grant until 31 December 2014. The share based payment charge of £62,000 was calculated using the Black-Scholes model with an assumed volatility of 45% and a dividend yeld of 2.86%.

Dividends

The following dividends were recognised in the period:

	2013 £'000	2012 £'000
Final: 7.0p *(2012 Final: 5.5p)* per qualifying ordinary share	866	505
Interim: 4.0p *(2012 Interim: 4.0p)* per qualifying ordinary share	496	367
	1,362	872

After the balance sheet date a final dividend of 7.5p (£929,000) per qualifying ordinary share *(2012: 7.0p, £648,000)* were proposed by the Directors. The dividend has not been provided for.

28 Financial instruments

(i) Fair values of financial instruments

Investments in equity securities

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the balance sheet date.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Trade and other payables

The fair value of trade and other payables is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date if the effect is material.

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated as its carrying amount where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Interest-bearing borrowings

Fair value, which after initial recognition is determined for disclosure purposes only, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

Derivative financial instruments

The fair value of derivative financial instruments is determined by their market value at the reporting date.

IAS 39 categories and fair values

The fair values of financial assets and financial liabilities are not materially different to the carrying values shown in the consolidated balance sheet and Company balance sheet.

Notes to the Financial Statements

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28 Financial instruments CONTINUED

The following table shows the carrying value for each category of financial instrument:

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Available-for-sale financial assets at fair value	**3,399**	9,030	**–**	–
Financial liabilities at amortised cost	**(10,012)**	(8,753)	**(461)**	(511)
Cash and cash equivalents	**11,416**	2,751	**10,554**	–
Bank overdrafts	**–**	–	**–**	(1,409)
Hire purchase debtors	**607**	535	**–**	–
Interest-bearing borrowings at amortised cost	**(7,288)**	(8,285)	**(1,569)**	(2,353)
Trade and other receivables	**4,960**	4,512	**21**	25

(ii) Credit risk

Financial risk management

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

Group

The Group's credit risk is primarily attributable to its trade receivables. The maximum credit risk exposure of the Group comprises the amounts presented in the balance sheet, which are stated net of provisions for doubtful debt. A provision is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of future cash flows. Management has credit policies in place to manage risk on an ongoing basis. These include the use of customer specific credit limits.

Company

The majority of the Company's receivables are with subsidiaries. The Company does not consider these counter-parties to be a significant credit risk.

Exposure to credit risk

The carrying amount of financial assets, other than available for sale financial assets represents the maximum credit exposure. Therefore, the maximum exposure to credit risk at the balance sheet date was £16,983,000 *(2012: £7,798,000)* being the total trade receivables, other financial assets and cash and cash equivalents in the balance sheet.

The maximum exposure to credit risk for trade receivables at the balance sheet date by geographic region was:

	Group	
	2013 £'000	2012 £'000
Falkland Islands	**1,133**	1,272
Europe	**663**	544
North America	**562**	391
United Kingdom	**2,321**	1,962
Other	**281**	343
Trade receivables	**4,960**	4,512

The Company has no trade receivables.

28 Financial instruments CONTINUED

Credit quality of trade receivables and impairment losses

Group	Gross 2013 £'000	Impairment 2013 £'000	Net 2013 £'000	Gross 2012 £'000	Impairment 2012 £'000	Net 2012 £'000
Not past due	2,745	–	2,745	2,791	–	2,791
Past due 0 – 30 days	1,689	–	1,689	1,216	–	1,216
Past due 31 – 120 days	272	–	272	464	–	464
More than 120 days	656	(402)	254	382	(341)	41
	5,362	(402)	4,960	4,853	(341)	4,512

The movement in the allowances for impairment in respect of trade receivables during the year was:

	Group	
	2013 £'000	2012 £'000
Balance as at 1 April 2012	341	259
Impairment loss recognised	61	82
Utilisation of provision	–	–
Balance as at 31 March 2013	402	341

The allowance account for trade receivables is used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable are written off against the trade receivables directly.

No further analysis has been provided for cash and cash equivalents, trade receivables from Group companies, other receivables and other financial assets as there is limited exposure to credit risk and no provisions for impairment have been recognised.

(iii) Liquidity risk

Financial risk management

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

Group and Company

At the beginning of the period the Group had outstanding bank loans of £3 million. All payments due during the year with respect to these agreements were met as they fell due.

The Group manages its cash balances centrally at head office and prepares rolling cash flow forecasts to ensure funds are available to meet its secured and unsecured commitments as and when they fall due.

Notes to the Financial Statements

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28 Financial instruments CONTINUED

Liquidity risk – Group

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effects of netting agreements:

2013	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments:						
Secured bank loans	2,003	2,071	1,026	1,010	35	–
Finance leases	5,285	12,963	396	366	956	11,245
Trade and other payables	10,012	10,012	10,012	–	–	–
	17,300	25,046	11,434	1,376	991	11,245

The contractual cash flows for finance leases in the years ended 31 March 2013 and 31 March 2012 are significantly higher than the liability at the year end, as the finance lease for the Gosport pontoon with Gosport Borough Council is a 50 year finance lease with quarterly payments of £65,000 until June 2061.

2012	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments:						
Secured bank loans	2,987	3,080	1,031	1,015	1,034	–
Finance leases	5,298	13,165	375	505	780	11,505
Trade and other payables	8,753	8,753	8,753	–	–	–
	17,038	24,998	10,159	1,520	1,814	11,505

28 Financial instruments CONTINUED

Liquidity risk – Company

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effects of netting agreements:

2013	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments:						
Secured bank loans	1,569	1,636	826	810	–	–
Trade and other payables	461	461	461	–	–	–
	2,030	2,097	1,287	810	–	–

2012	Carrying amount £'000	Contractual cash flows £'000	1 year or less £'000	1 to 2 years £'000	2 to 5 years £'000	5 years and over £'000
Non-derivative financial instruments:						
Secured bank loans	2,353	2,445	831	815	799	–
Bank overdrafts	1,409	1,409	1,409	–	–	–
Trade and other payables	511	511	511	–	–	–
	4,273	4,365	2,751	815	799	–

(iv) Market risk

Financial risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

Market risk – Foreign currency risk

The Group has exposure to foreign currency risk arising from trade and other payables which are denominated in foreign currencies. The Group is not, however, exposed to any significant transactional foreign currency risk. The Group's exposure to foreign currency risk is as follows and is based on carrying amounts for monetary financial instruments.

	Group			
As at 31 March 2013	EUR £'000	USD £'000	Other £'000	**Total £'000**
Cash and cash equivalents	32	204	7	**243**
Debtors	–	38	–	**38**
Trade and other payables	(321)	(261)	(97)	**(679)**
Balance sheet exposure	(289)	(19)	(90)	**(398)**

Notes to the Financial Statements

CONTINUED

28 Financial instruments CONTINUED

	Group			
As at 31 March 2012	EUR £'000	USD £'000	Other £'000	Total £'000
Cash and cash equivalents	25	214	2	241
Debtors	–	55	–	55
Trade and other payables	(206)	(437)	(134)	(777)
Balance sheet exposure	(181)	(168)	(132)	(481)

The Company has no exposure to foreign currency risk.

Sensitivity analysis

Group

A 10% weakening of the following currencies against pound sterling at 31 March would have increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant and is performed on the same basis for the year ended 31 March 2012.

	Equity		Profit or loss	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
EUR	29	18	29	18
USD	2	17	2	17

A 10% strengthening of the above currencies against pound sterling at 31 March would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Market risk – interest rate risk

Profile

At the balance sheet date the interest rate profile for the Group's interest-bearing financial instruments was:

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Fixed rate financial instruments:				
Finance leases receivable	607	535	–	–
Finance leases payable	(5,285)	(5,298)	–	–
	(4,678)	(4,763)	–	–
Variable rate financial instruments:				
Financial liabilities	(2,003)	(2,987)	(1,569)	(2,353)
	(2,003)	(2,987)	(1,569)	(2,353)

28 Financial instruments CONTINUED

The Group has a loan of £0.4 million *(2012: £0.6 million)* in respect of the ferry delivered in 2005. The loan is repayable over a 10 year period from June 2005 and bears interest at 1.1% above the Bank of England base rate, with a minimum base rate of 2.75%.

The Group has a further loan of £1.6 million *(2012: £2.4 million)* in respect of the acquisition of Momart International Limited. The loan is repayable over five years from June 2010 and bears interest at 1.5% above the Bank of England base rate.

Sensitivity analysis

An increase of 100 basis points in interest rates at the balance sheet date would have increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates and financial instruments at fair value through profit or loss or available-for-sale with fixed interest rates. The analysis is performed on the same basis for 31 March 2012.

	Group		Company	
	2013 £'000	2012 £'000	**2013 £'000**	2012 £'000
Equity:				
Decrease	**(20)**	(30)	**(16)**	(24)
Profit or loss:				
Decrease	**(20)**	(30)	**(16)**	(24)

Market risk – equity price risk

The Group's and Company's exposure to equity price risk arises from its investments in equity securities which are classified in the balance sheet as shares held in Falkland Oil and Gas Limited (see note 15).

Sensitivity analysis

The Group's available-for-sale financial assets comprise its investment in FOGL. During the year ended 31 March 2013 FOGL shares traded on the AIM market of the London Stock Exchange at an average price of 61.66p with a high of 98.75p and a low of 26.5p. Based upon this share price history the value of available-for-sale financial assets owned at the balance sheet date could have varied between a low of £3,399,000 *(2012: £6,009,000)* and a high of £12,665,000 *(2012: £12,222,000)*.

(v) Capital Management

The Group's objectives when managing capital, which comprises equity and reserves at 31 March 2013 of £34,279,000 (2012: £29,488,000), are to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders.

Notes to the Financial Statements

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29 Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Group	
	2013 £'000	2012 £'000
Less than one year	611	700
Between one and five years	2,975	2,630
More than five years	8,759	5,905
	12,345	9,235

The Group leases three office premises and a number of storage warehouses under operating leases. Office leases typically run for a period of 3-10 years, with an option to renew the lease after that date. Warehouse leases typically run for a period of 25 years, with an option to renew the lease after that date.

Group

During the year £773,000 was recognised as an expense in the income statement in respect of operating leases *(2012: £670,000)*.

The Company had no operating lease commitments.

30 Capital commitments

At the end of the year the Group had no capital commitments not provided for in these financial statements.

31 Related parties

The Company has a related party relationship with its subsidiaries (see note 14) and with its Directors and executive officers.

Directors of the Company and their immediate relatives control 21.4% of the voting shares of the Company.

The compensation of key management personnel (including Directors) is as follows:

	Group		Company	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Key management emoluments including social security costs	1,536	1,244	560	488
Company contributions to defined contribution pension plans	83	100	–	26
Share-related awards	155	46	127	–
Total key management personnel compensation	1,774	1,390	687	514

32 Accounting estimates and judgements

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based upon historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements as to asset and liability carrying values which are not readily apparent from other sources. Actual results may vary from these estimates, and taken into account in periodic reviews of the application of such estimates and assumptions.

Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Actuarial assumptions have been used to value the defined benefit pension liabilities. Management have selected these assumptions from a range of possible options following consultations with independent actuarial advisors.

Impairment tests have been undertaken with respect to intangible assets (see note 11 for further details) using commercial judgement and a number of assumptions and estimates have been made to support their carrying amounts. In determining the fair value of intangible assets recognised on the acquisition of Momart International Limited management acted after consultation with independent intangible asset valuation advisors.

Directors and Corporate Information

Directors
David Hudd *Chairman*
John Foster *Managing Director*
Mike Killingley*
Jeremy Brade*
Edmund Rowland*

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Company Secretary
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